

AR58

1996 Annual Report



Why Methanex?

Global Leadership in Methanol

## Corporate Profile

Methanex Corporation is the global leader in methanol production and marketing. Methanol, typically produced from natural gas, is a basic chemical building block used in the production of formaldehyde, methyl-tertiary-butyl-ether (MTBE), acetic acid and a variety of other chemical intermediaries. These derivatives are ultimately used in the manufacture of a wide variety of products that we find in our everyday lives, including: adhesives, paints, inks, urethane and MDI foams, gasoline additives, silicones, PET plastic, polyester, solvents, Spandex, and windshield washer fluid. Methanol is also used directly as a fuel.

Based in Vancouver, Canada, Methanex has plants strategically located in New Zealand, the United States, Canada, and Chile. Additional methanol is available through marketing agreements with plants located in the United States, Germany, and Trinidad. This extensive global marketing and distribution system makes Methanex the largest supplier of methanol to each of the major international markets. In 1996, Methanex accounted for roughly 38% of the world merchant market for methanol.

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The AIF is a requirement of Canadian securities regulators (similar to a 10K in the United States) and it provides detail on the methanol industry and Methanex.

*The information in this document contains forward-looking statements with respect to Methanex Corporation, its subsidiaries or affiliated companies. By their nature, these forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. These risks and uncertainties include commodity chemical prices, competitive developments affecting the methanol industry, and other risks detailed from time to time in the publicly filed disclosure documents and Securities Commission reports of Methanex Corporation and its subsidiaries or affiliated companies.*

*Except where otherwise noted, all dollar amounts in this Annual Report are stated in United States dollars.*

ina, Germany

lt: 1985

rchased Methanol

capacity: 400K





# Methanex Financial Highlights

Four Year Financial Review

1996 Methanex Fact Book i

## Earnings and Operating Cash Flows

(thousands \$US)	1996	Q4	Q3	Q2	Q1	1995	1994	1993	95/96 Change
Revenue	945,707	264,288	236,435	227,419	217,565	1,249,179	1,487,892	533,436	-24%
Less:									
Cost of sales and operating expenses	734,122	195,318	181,601	183,725	173,478	848,256	876,175	439,488	-13%
Depreciation and amortization	114,055	28,168	28,043	30,255	27,589	97,575	74,561	57,793	17%
Interest expense	20,361	3,456	4,523	5,721	6,661	32,090	30,476	23,712	-37%
Interest income	(22,993)	(5,024)	(6,250)	(6,161)	(5,558)	(22,257)	(5,333)	(2,945)	3%
Write down of property, plant and equipment	105,000	105,000	—	—	—	—	—	—	—
Other, net <sup>1</sup>	—	—	—	—	—	39,058	—	—	—
Income and other taxes	3,014	(6,128)	4,811	3,323	1,008	62,719	77,386	5,461	-95%
<b>Net earnings</b>	<b>(7,852)</b>	<b>(56,502)</b>	<b>23,707</b>	<b>10,556</b>	<b>14,387</b>	<b>191,738</b>	<b>434,627</b>	<b>9,927</b>	<b>-104%</b>
Add (deduct):									
Depreciation and amortization	114,055	28,168	28,043	30,255	27,589	97,575	74,561	57,793	17%
Write down of property, plant and equipment	105,000	105,000	—	—	—	—	—	—	—
Deferred income taxes	4,188	(1,307)	2,699	1,930	866	26,952	30,912	3,328	-84%
Debt retirement cost	—	—	—	—	—	36,543	—	—	—
Other	8,460	(269)	8,319	158	252	9,647	4,668	(340)	-12%
<b>Cash flow from operations<sup>2</sup></b>	<b>223,851</b>	<b>75,090</b>	<b>62,768</b>	<b>42,899</b>	<b>43,094</b>	<b>362,455</b>	<b>544,768</b>	<b>70,708</b>	<b>-38%</b>
Increase (decrease) in cash position	(15,753)	36,524	(13,285)	(16,000)	(22,992)	207,420	106,919	(9,572)	-108%
EBIT <sup>3</sup>	120,523					323,090	542,489	39,100	-63%
EBITDA <sup>1</sup>	234,578					420,665	617,050	96,893	-44%

(1) Refer to Consolidated Financial Statements for details

(2) Before changes in non-cash working capital

(3) Includes interest income. Excludes write down of property, plant, and equipment (1996) and debt retirement costs (1995)

## Consolidated Balance Sheets

(thousands \$US)	1996	Q4	Q3	Q2	Q1	1995	1994	1993	95/96 Change
<b>Assets</b>									
Cash and cash equivalents	383,892	383,892	347,368	360,653	376,653	399,645	192,225	85,306	-4%
Receivables	207,847	207,847	202,051	145,545	143,024	173,045	339,006	84,825	20%
Inventories	68,129	68,129	67,743	59,385	61,979	64,223	108,143	39,242	6%
Prepaid expenses	9,237	9,237	12,325	18,318	14,974	13,351	12,519	12,054	-31%
Current assets	669,105	669,105	629,487	583,901	596,630	650,264	651,893	221,427	3%
Property, plant and equipment	1,020,546	1,020,546	1,069,806	1,067,594	1,037,983	1,014,128	974,647	698,447	1%
Other assets	81,513	81,513	76,307	138,932	138,550	84,209	61,753	49,911	-3%
<b>Total assets</b>	<b>1,771,164</b>	<b>1,771,164</b>	<b>1,775,600</b>	<b>1,790,427</b>	<b>1,773,163</b>	<b>1,748,601</b>	<b>1,688,293</b>	<b>969,785</b>	<b>1%</b>
<b>Liabilities and Shareholders' Equity</b>									
Accounts payable and accrued liabilities	119,179	119,179	114,802	128,629	122,666	111,686	246,249	97,836	7%
Current maturities on long-term debt and other long-term liabilities	4,932	4,932	4,880	4,828	4,778	24,357	9,451	32,269	-80%
Current liabilities	124,111	124,111	119,682	133,457	127,444	136,043	255,700	130,105	-9%
Long-term debt	398,241	398,241	398,180	398,120	398,140	401,331	398,350	409,069	-1%
Other long-term liabilities	64,024	64,024	21,948	23,185	24,400	29,582	2,978	—	116%
Deferred income taxes	72,548	72,548	73,855	71,156	69,226	68,360	41,408	10,496	6%
<b>Total liabilities</b>	<b>658,924</b>	<b>658,924</b>	<b>613,665</b>	<b>625,918</b>	<b>619,210</b>	<b>635,316</b>	<b>698,436</b>	<b>549,670</b>	<b>4%</b>
Shareholders' equity	1,112,240	1,112,240	1,161,935	1,164,509	1,153,953	1,113,285	989,857	420,115	0%
<b>Total liabilities and shareholders' equity</b>	<b>1,771,164</b>	<b>1,771,164</b>	<b>1,775,600</b>	<b>1,790,427</b>	<b>1,773,163</b>	<b>1,748,601</b>	<b>1,688,293</b>	<b>969,785</b>	<b>1%</b>
<b>Total capitalization</b>	<b>1,510,481</b>	<b>1,510,481</b>	<b>1,560,115</b>	<b>1,562,629</b>	<b>1,552,093</b>	<b>1,534,245</b>	<b>1,397,658</b>	<b>861,453</b>	<b>-2%</b>

Note: Certain financial data for 1993-1995 has been restated. Please refer to Consolidated Financial Statements for details.



## The Methanex World

(all capacities in thousands of tonnes)



### Chilean Expansions

The \$275 million expansion in Punta Arenas, Chile was completed in December of 1996. This second plant has a rated capacity of 925,000 tonnes and will lower our average delivered cash costs by approximately \$5 per tonne as a result of long term low cost natural gas agreements and economies of scale. The favorable economics of the Chilean site has prompted our Board of Directors to approve a further \$305 million expansion for the construction of a third plant. It will have a rated capacity of 975,000 tonnes and is expected to be operational by the second half of 1999.

Both of these plants will significantly reduce our average delivered cash costs. Capital expenditure is also lower than any other recent methanol project. As a result, these projects represent significant milestones in the creation of shareholder value.







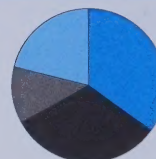
## Global Market Position

### Sales Volume by Region

(thousands of tonnes)

	1996	1995	1994	1993
North America	2,185	1,958	2,227	722
Asia Pacific	1,945	1,609	1,288	1,275
Europe	1,292	1,139	905	864
Latin America	715	615	454	149
<b>Total Sales</b>	<b>6,137</b>	<b>5,321</b>	<b>4,874</b>	<b>3,010</b>
Sales of Methanex production	4,580	3,939	3,403	2,264
Sales of Methanex Purchased Product	1,557	1,382	1,471	746
Total world production (Source: SRI)	24,763	23,761	22,843	22,097
World merchant market (Source: Industry composite estimates)	16,100	15,400	14,800	14,400

### 1996 Sales Distribution by Region



North America	35%
Asia Pacific	32%
Europe	21%
Latin America & Middle East	12%

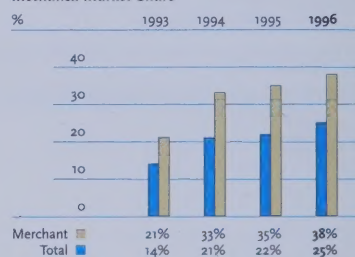
## Supply – Methanol Capacity Additions

(thousands of tonnes) Known Capacity Additions 1996 – 1998

	Start-up	Capacity
TTMC II, Trinidad	April 1996	550
BP/Sterling, Texas	September 1996	450
Methanex, Chile II	December 1996	925
Statoil, Norway	Q2 1997	830
Ar Razi III, Saudi Arabia	Q3 1997	850
PT Kaltim, Indonesia	Q4 1997	660
Meth IV, Trinidad	Q3 1998	550

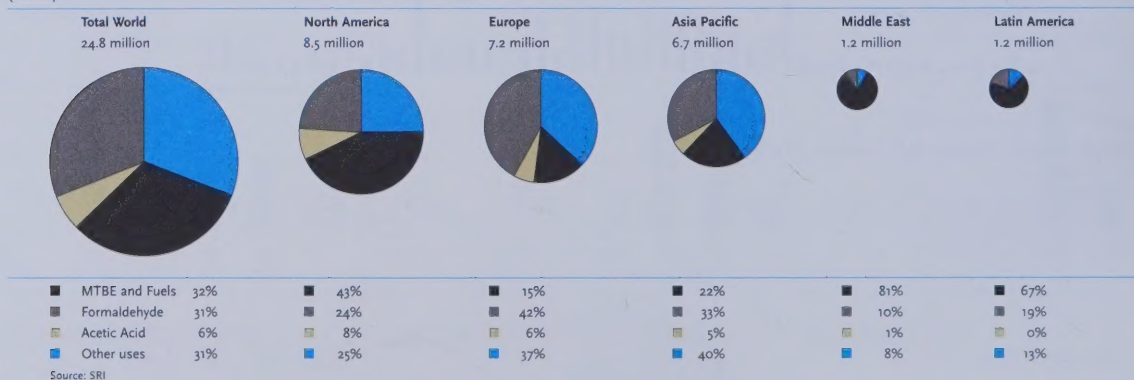
Note: Included in this table are only those projects where construction is known to be underway.

### Methanex Market Share



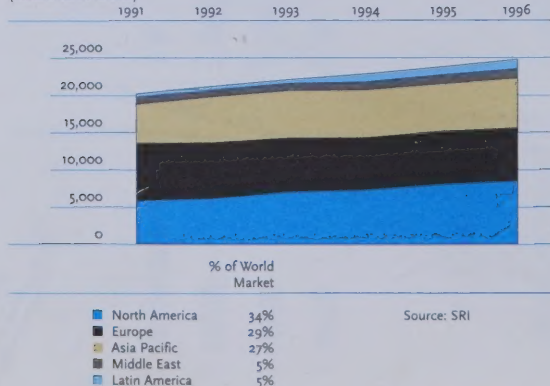
## 1996 World Methanol Consumption

(thousands of tonnes)



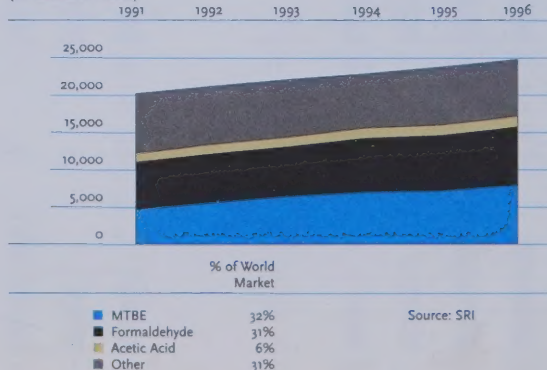
## Regional Demand Growth 1991–1996

(thousands of tonnes)



## Derivative Demand Growth 1991–1996

(thousands of tonnes)





## To Our Investors

1996 was a pivotal year in the brief history of Methanex Corporation. It was the first full year of our global approach to the marketing of methanol and we were rewarded by our customers with a 15% growth in sales volume. During the year, we also completed our largest capital project to date, Chile II, on time and on budget, and this new low-cost facility has been operating at capacity since early January 1997. The outstanding execution of these two key elements of our strategy has demonstrated that we are on the right track to creating value for our shareholders.

Net earnings before write-down in 1996 were \$85.5 million (\$0.45 per share) compared to \$191.7 million (\$1.01 per share) in the prior year. Cash flow from operations before changes in non-cash working capital for 1996 was \$223.9 million (\$1.18 per share) compared to \$362.5 million (\$1.90 per share) in 1995. Reduced earnings resulted from lower methanol prices and a one-time charge of \$93.4 million (net of tax) associated with the December 1996 write-down of assets in Medicine Hat, Canada and Waitara Valley, New Zealand.

Although financial results strengthened throughout the year, they remained below 1995 levels. Approximately 80% of net income in 1995 was achieved in the first quarter as a result of extremely high methanol prices of up to \$550 per tonne. For the remainder of 1995, prices dropped precipitously to a fourth quarter low of \$110 per tonne. In 1996, a balanced supply and demand market situation coupled with higher than expected natural gas feedstock prices in the United States provided the environment for strengthening price levels. While many industry followers had expected weaker prices in 1996 because of new increments of supply, the price weakness never materialized due to delays in the start-up of new capacity, robust demand, and numerous mechanical problems throughout the methanol industry.

Realized methanol prices in 1996 were \$149 per tonne (\$0.45 per gallon) compared to \$222 per tonne (\$0.67 per gallon) in 1995 and \$288 per tonne (\$0.87 per gallon) in 1994. Our realized prices increased from a low of \$138 per tonne (\$0.42 per gallon) in January to a high of \$163 per tonne (\$0.49 per gallon) in December. Methanex ended 1996 with total sales in excess of 6.1 million tonnes as compared to 5.3 million tonnes in 1995 – a growth rate approximately three times that of the overall market. Clearly the security of supply offered by Methanex has been translated into increased market share.

## Methanex Sales & Marketing Statistics

1996 Methanex Fact Book iv

### Global Market Position

Sales Volume by Region (thousands of tonnes)	1996	1995	1994	1993
North America	2,185	1,958	2,227	723
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Sales of Methanex Purchased Product	1,557	1,382	1,471	746
<b>Total world production (Source: SRI)</b>	<b>24,763</b>	<b>23,761</b>	<b>22,843</b>	<b>22,097</b>
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1996 Sales Distribution by Region



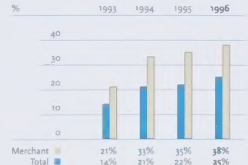
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### Supply – Methanol Capacity Additions

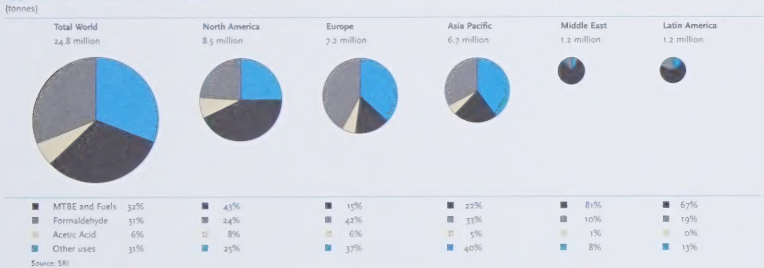
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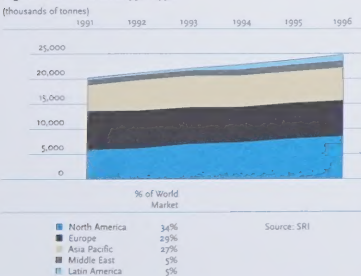
Methanex Market Share



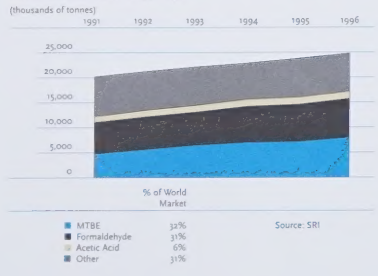
### 1996 World Methanol Consumption



### Regional Demand Growth 1991 – 1996



### Derivative Demand Growth 1991 – 1996



## Methanex Production Statistics

1996 Methanex Fact Book v

### Methanol Production Data

(thousands of tonnes)	1997 Nominal Rated Capacity	1996	1995	1994	1993
<b>North America</b>					
Medicine Hat I, Alberta	260	219	230	239	—
Medicine Hat II	270	244	215	262	—
Medicine Hat III	570	554	538	538	—
Kitimat, British Columbia	500	436	409	498	521
Fortier, Louisiana <sup>a</sup>	400	248	314	100	—
Enron, Texas <sup>b</sup>	—	11	94	135	160
<b>Total</b>	<b>2,000</b>	<b>1,742</b>	<b>1,790</b>	<b>1,772</b>	<b>681</b>
<b>New Zealand</b>					
Waitara	530	549	523	501	533
Motunui DII	500 <sup>c</sup>	371	371	456	249
Motunui DIII	700 <sup>c</sup>	529	430	19	—
Motunui DIV	700 <sup>c</sup>	397	51	—	—
<b>Total</b>	<b>2,430</b>	<b>1,846</b>	<b>1,375</b>	<b>976</b>	<b>782</b>
<b>Chile</b>					
Chile I	800	853	841	874	807
Chile II	925	14	—	—	—
Chile III (start-up 1999)	975	—	—	—	—
<b>Total</b>	<b>1,725</b>	<b>867</b>	<b>841</b>	<b>874</b>	<b>807</b>
<b>Total Gasoline Production</b>	<b>6,155</b>	<b>4,455</b>	<b>4,006</b>	<b>3,622</b>	<b>2,270</b>
<b>Methanol Equivalent Capacity Utilization<sup>d</sup></b>	<b>720<sup>e</sup></b>	<b>178</b>	<b>290</b>	<b>467</b>	<b>604</b>
Number of Employees		94%	89%	95%	98%
Lost Time Incidents		881	876	820	616
Productivity (thousands of tonnes/employee)		5	2	1	2
Revenue (thousands/employee)		\$5.06	4.57	4.42	3.69
		\$1,073	\$1,426	\$1,815	\$866

(1) Methanex's 70% share of total capacity.

(2) Enron no longer supplies product to Methanex as of February 12, 1996.

(3) Assumes all crude methanol consumed to produce chemical grade methanol.

(4) Assumes all crude methanol consumed to produce gasoline.

(5) Capacity utilization figures incorporate both plant down-time and reductions in operating rates. From 1994 to 1996, our plants averaged 94% on stream factor which represents the proportion of time our plants were operating irrespective of throughput. Excludes Enron production.

### Sales of Purchased Product

(thousands of tonnes)	1997 Estimate	1996	1995	1994	1993
Leuna, Germany	210	323	350	380	348
Fortier, Louisiana	140	67	95	33	0
Texaco, Delaware	0	62	226	165	172
CMC, Trinidad	500	433	484	536	24
Other (US & Europe)	200	652	227	357	202
<b>Total purchased product</b>	<b>1,050</b>	<b>1,557</b>	<b>1,382</b>	<b>1,471</b>	<b>746</b>

### Corporate Development and Marketing Capacity History

(thousands of tonnes)	1997 Estimate	1996	1995	1994	1993
Name Plate Production Capacity	6,155	5,230	5,030	3,970	2,420
Sales of Purchased Product	1,050	1,557	1,382	1,471	746
<b>Total Marketing Capability</b>	<b>7,205</b>	<b>6,787</b>	<b>6,412</b>	<b>5,441</b>	<b>3,166</b>



(1) Name Plate capacity excludes planned idling of Medicine Hat II during 1997.

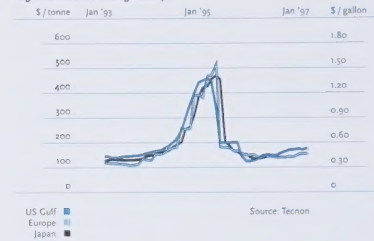
## Methanol – General Information

1996 Methanex Fact Book vi

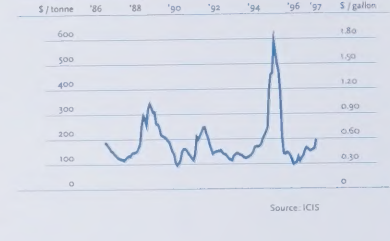
### Methanol Price History

	1996		1995		1994		1993	
	\$ / tonne	\$ / gallon	\$ / tonne	\$ / gallon	\$ / tonne	\$ / gallon	\$ / tonne	\$ / gallon
Methanex average realized	149	0.45	222	0.67	288	0.87	136	0.41

### Regional Contract Pricing History



### U.S. Gulf Spot Price History



### Methanol

Primary Derivatives	Derivative	End Use products
<b>Formaldehyde</b>	•Urea •Phenol •1,4-butanediol •Acetal resins •MDI	•particleboard, medium density fibre board (MDF) •oriented strand board (OSB), plywood •PVC solvent, PBT moulding resins (automotive) •automotive and plumbing moulding resins •rigid urethane foam (insulation) and mouldings
<b>Acetic Acid</b>	•VAM •Acetic anhydride •Terephthalic acid •Solvent esters •Chloroacetic acid	•adhesives, latex paints •cigarette filter material, pharmaceuticals •polyester fibre and plastic bottles •paints, coatings, inks •herbicides, pharmaceuticals
<b>MTBE and Fuels</b>	•MTBE blended with gasoline •MEC (Methanol / Ethanol / Gasoline) •M85 / M100	•motor vehicle fuel •oxygenated fuels •octane enhanced fuels
<b>Other Derivatives</b>	•Methyl methacrylate •Methylamines •Chloromethanes •Dimethyl terephthalate •Direct uses	•sheet for signs, windows, auto parts •poultry feed additive, pesticides, biocides •silicones, solvents, agricultural chemicals •polyester fibres and resins (bottles, sheet) •solvent, windshield wash, disinfectant

### Conversion Formulas

Production Conversions (unit of methanol consumed per unit of product by weight; Source: CMAI)

Acetic Acid	0.55	Dimethyl Ether (DME)	1.5	MTBE	0.364
Carbon Tetrachloride	0.22	Formaldehyde (37%)	0.45	Polyacetal	1.5
Chloroform	0.29	Methyl Acrylate	0.39	Synthetic Gasoline	2.58
Methyl Chloride	0.68	Methylamines	1.45	Triethylene Glycol MME	0.22
DMT (non-retained)	0.38	Methyl Methacrylate	0.39	Single Cell Protein	1.75 – 2.6
Diethylene Glycol MME	0.3	Methylene Chloride	0.41		

### Volume and Mass Conversions

1 Tonne methanol =	332.6 US Gallons = 7.92 Barrels	1 MMBTU =	1,055 GJ
1 Tonne gasoline =	362 US Gallons = 8.62 Barrels	1 GJ =	0.948 MMBTU
1 Barrel =	42 US Gallons	1 MMBTU =	1 MSCF
1 Gallon =	1 US Gallon or 3.785 Litres		(assuming approximate caloric value of pipeline gas = 1000 BTU/SCF or 0.039 GJ/nm³)
1 Tonne =	1.1025 Short Ton	BTU =	British Thermal Unit
1 Short Ton =	0.907 Tonne	GJ =	Gigajoule = 10 <sup>9</sup> joules
1 Kilogram =	2.205 lbs.	MSCF =	Thousand Standard Cubic Feet
1 MSCF =	26.8 nm³	nm³ =	Normal Cubic Meter
100 \$ per tonne MeOH =	\$0.30 per gallon MeOH		



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Realized methanol prices in 1996 were \$149 per tonne (\$0.45 per gallon) compared to \$222 per tonne (\$0.67 per gallon) in 1995 and \$288 per tonne (\$0.87 per gallon) in 1994. Our realized prices increased from a low of \$138 per tonne (\$0.42 per gallon) in January to a high of \$163 per tonne (\$0.49 per gallon) in December. Methanex ended 1996 with total sales in excess of 6.1 million tonnes as compared to 5.3 million tonnes in 1995 – a growth rate approximately three times that of the overall market. Clearly the security of supply offered by Methanex has been translated into increased market share.

## 1996 Year in Review

In last year's President's Message, we emphasized that profitable growth in commodity chemicals requires a superb cost structure. We committed ourselves to a strategy that would improve our overall costs, capitalize on our unique global position, and meet the needs of our customers worldwide. This strategy to create value focused on four elements: Enhanced Asset Portfolio, World-Class Supply Chain Management, Superior Commodity Marketing, and Leadership in Market Development. We also concentrated on operating excellence.

### Enhanced Asset Portfolio

Methanex is committed to reducing costs and providing supply security through strategic capital investments.

One of our most significant achievements in 1996 was the successful start-up of our second plant at Punta Arenas, Chile. This 925,000 tonne, \$275 million plant was completed on time and on budget and is the lowest-cost methanol production facility in the Methanex system. It has the capability of delivering product to its natural markets at cash costs that are 35% below the historical cash cost floor for methanol. Building on this achievement, we have already announced our plans for a third plant in Chile with a capacity of 975,000 tonnes and a capital cost of \$305 million.

These recent investments are supported by 20-year natural gas contracts which are priced to ensure cost of capital returns at the bottom of the methanol cycle.

With the commissioning of these new facilities, we will reduce production at higher-cost sites in the Methanex system. In the short term, this will affect

## 1996 Corporate Events Review

### January

- Completion of Global Environmental Audit with satisfactory results.

### February

- Termination of 150,000 tonne per annum methanol purchasing agreement with Enron.

### March

- Conducted an employee survey, communicated results and developed an action plan to address areas of concern.

### April

- Texaco Refining and Marketing Inc. halted production from its Delaware City methanol plant. This helped increase sales of our own produced product since we had a purchasing agreement with Texaco for up to 250,000 tonnes per annum.
- Methanex reports record first quarter sales volume of 1,453,500 tonnes (22.9% above the same period in 1995).
- Launched new time charter vessel, Saamis Adventurer (30,000 dwt).

### May

- Launched new time charter vessel, Rere Moana (30,000 dwt).

### June

- Fortier plant successfully restarted.

### July

- Methanex reports record second quarter sales volume of 1,538,100 tonnes (14.1% above the same period in 1995). This was the sixth consecutive quarter of record sales volume.



the smaller production units at Medicine Hat, Alberta, although overall this site will remain a strategic niche location for Methanex. We also plan to curtail production at Waitara, New Zealand in 1998, consistent with our overall supply requirements and gas availability in New Zealand.

As a result of these changes in our operating plan, we took a \$93.4 million write-down to cover the carrying value and the costs associated with the closure of these facilities.

We are well on our way towards our ambitious cost reduction targets.

### *World-Class Supply Chain Management*

In 1995, we recognized that there was enormous potential to extract greater value from our global supply network. To address this potential, we re-engineered our Supply Chain Group, which became fully operational in 1996. This group is responsible for identifying opportunities and managing the supply chain – from the purchase of natural gas feedstock to the delivery of methanol to our customers. Overall, the Supply Chain Group maintained high customer service levels in an environment of sustained low inventory levels. Their flexibility and quick decision making would not have been possible in previous years and resulted in increased sales.

Our tonnage of methanol shipped increased by 20% in 1996, resulting in the high utilization of our vessels. During the year, three new 30,000 tonne ships were brought into service and two 45,000 tonne ships were completed for delivery in early 1997. With these ships, our time charter capacity will increase by nearly 60% which will improve our ability to service our customers in a timely and cost-effective manner. Furthering our commitment to operating excellence, we implemented a new integrated shipping system that facilitates estimations of voyage time and cost, customer invoicing, and accounting.

#### **August**

- Launched new time charter vessel, Cisne Blanco (30,000 dwt).

#### **September**

- Methanex Board of Directors approves the construction of a third plant in Chile with an annual capacity of 975,000 tonnes.
- Methanex public debt receives upgrade from Moody's (Baa3) and Fitch (BBB+).
- Methanex Europe received ISO 9002 registration.

#### **October**

- Methanex Europe signed long-term agreements for Mediterranean storage facilities in Italy and France to enhance sales and strategic positioning.

#### **November**

- North American operations achieved phase 1 Responsible Care® verification.
- Methanex celebrated milestone of 3 million tonnes of methanol delivered to Mitsubishi.

#### **December**

- Production began at the second plant in Chile with an annual rated capacity of 925,000 tonnes. This world-class project was delivered on time and on budget and will lower average delivered cash costs by approximately \$5 per tonne.
- Methanex furthered its low-cost strategy with the announcement of its intention to idle high-cost plants.
- International employee share purchase plan was initiated to engage all employees in ownership of company.

### Superior Commodity Marketing

Methanex is in a unique position in the global industry. We supply approximately 38% of the world's merchant market and have the leading market share in all major geographic regions, giving us global knowledge and insight that are not available to our competitors. Our goal is to translate this into value for our shareholders.

The Global Marketing Team, consisting of regional directors from the USA, Europe, Latin America, Asia Pacific, and the head of our global Supply Chain Group, now has in place a continuous information sharing process to identify significant market opportunities. In 1996, our intimate knowledge of global supply and demand dynamics resulted in improved service to our customers and greater margins for our product.

We are now able to quickly assess "make vs. buy" decisions in the marketplace and determine which will have the most favorable economic impact on our business. When our Fortier, Louisiana plant had an unplanned and extended outage during the first half of 1996, we instituted purchases of methanol on the spot market to supplement our own production and to ensure security of supply to our customers. Most of our competitors do not have such alternatives.

#### 1. Why build a third plant in Chile at a time when industry observers are predicting the potential of excess supply in the next few years?

We expect our methanol sales volume to at least match global market growth and it is our basic strategy to match production to sales requirements. This means we require new capacity every three to four years to maintain market position and ensure continued supply security to our customer base. The third plant in Chile, on its own merit, also meets all of our value creation criteria.

#### 2. Are you worried about the concentration of assets in Chile?

The risk associated with the concentration of assets at our Chile site was thoroughly investigated and we were satisfied that the risk was manageable for the following reasons:

- a) We have negotiated 20-year gas supply contracts that involve a number of gas suppliers from Argentina and Chile to secure cost competitiveness and reduce risk.
- b) The track record for operation of the Chilean facility has been exceptionally strong in terms of on-stream time, safety, and cost performance.
- c) We have developed an open business relationship within Chile and keep the government and communities involved in our local development strategy. Chile's government has been successful in fostering a positive international business climate, thereby reducing concerns pertaining to country risk.



Our customer base continues to respond to this type of commitment and we saw our sales grow 15% year over year. We continue to serve the top methanol consumers from around the world and our sales distribution is now 35% North America, 32% Asia Pacific, 21% Europe, and 12% Latin America. This provides exposure to all of the world's economies.

### *Leadership in Market Development*

As the leader in the methanol industry, we can play a key role in developing selected strategic markets around the world. Early in the year, we established two distinct functions to pursue growth opportunities in the chemical and energy sector.

The most immediate and promising development potential is in the energy sector, where we have focused on three exciting applications for methanol. During 1996, Methanex secured the rights to emulsifier technology to blend methanol with diesel for applications to reduce particulate air emissions. We are currently supporting commercial trials of this new fuel product in diesel buses in South America. Methanex also renewed commitments to the California Energy Commission and the Ford Motor Company to actively promote the development of M85 (85% methanol/15% gasoline) fleet vehicles for a number of state and private organizations. But perhaps the greatest

### *3. How do fluctuations in the price of natural gas affect Methanex's profitability?*

Natural gas accounts for a significant proportion of a methanol producer's operating costs. The price of natural gas in the US Gulf can vary dramatically and so, therefore, does the profitability of the local methanol producers.

Methanex enters 1997 with approximately 70% of its production capability from operations outside North America and less than 10% exposed to the volatile US Gulf natural gas market. Operations in Alberta traditionally benefit from significantly lower natural gas pricing than is experienced in the U.S. Gulf.

In terms of non-North American operations, the Chilean assets are supported by long-term natural gas contracts at a fixed price in US dollars with limited escalation except for a sharing mechanism which is invoked during extended periods of above-average methanol prices. The New Zealand assets also have long-term gas contracts at a fixed price in NZ dollars with an inflation escalator.

The significant increase in US natural gas pricing during 1996 adversely impacted our North American operations but also provided considerable support to methanol pricing in the US and elsewhere. In general, natural gas price increases in the US have a positive impact on our results since the increase in costs at our North American facilities is more than offset by the benefit received from stronger pricing for our non-North American production.

new market potential is in direct methanol fuel cells for power generation and transportation applications where low emissions are deemed important. Methanex dedicated significant management time to researching and understanding the fuel cell industry and determining the role we should ultimately play in the future commercialization of this technology.

### *Operating Excellence*

Our ability to create a sustainable competitive advantage was supported by a commitment to operating excellence. We made significant progress in a number of areas which helped to define the culture that has developed within the organization. Our comprehensive vision of operating excellence encompasses Responsible Care®, financial and risk management, and people leadership.

We are dedicated to the principles of Responsible Care® which define workplace and environmental standards within the chemical industry in over 50 countries. In 1996, after scrutiny from independent inspectors, we received confirmation that we are achieving the standards of Responsible Care® at our North American operations. We are currently implementing the same standards at our facilities in Chile and New Zealand, with verification expected in March 1997. Early in 1996, Methanex completed a global environmental

#### **4. Given the finite nature of the gas reserves under contract in New Zealand, what are the medium and long-term prospects for this site?**

The New Zealand gas contracts extend until 2005. In order to extract maximum value from the remaining contracted gas, we plan to consolidate our New Zealand production at the Motunui site beginning in 1998. Exploration efforts for new gas are ongoing, although, there can be no guarantee that economical gas for petrochemical manufacturing will be available within the required time frame. In response, we are evaluating alternative locations to develop a production hub that could underpin our market position in Asia and create shareholder value in the process.



audit with the assistance of outside consultants to determine a baseline for the management of our environmental performance. The resulting recommendations for continuous improvement are being addressed.

Prudent financial and risk management is crucial to the way we conduct our business. All rating agencies confirmed or upgraded our debt instruments to investment grade level in 1996. Our financial position continues to be very robust, and we ended the year with cash and equivalents of \$384 million and an undrawn bank credit line of \$387 million. We have significant resources with which to pursue strategic opportunities in the coming years.

At Methanex, people are our greatest asset. To build upon this strength, we conducted an employee survey in 1996 to determine areas in which people systems could be improved. The results were very encouraging and will serve as a benchmark for improvement. As a result of this survey, we have committed to renewed leadership training for all those in a coaching role.

Our performance management system was in place throughout 1996 and we are beginning to reap rewards through improved dialogue between employees and their managers regarding performance expectations, training requirements, and career development. The corporate leadership team also established a succession plan for all senior management roles and this

#### 5. What has happened to MTBE demand over the last year and what are the expectations for the future?

Methyl Tertiary Butyl Ether (MTBE) is used as both an octane enhancer and as an oxygenate in gasoline. Reformulated gasoline (RFG) has proven to be very effective in improving air quality and it accounts for approximately 30% of the gasoline pool in the United States with MTBE being the most prevalent oxygenate in RFG. MTBE demand increased by approximately 14% in 1996. This was largely attributable to the introduction of mandated statewide cleaner-burning gasoline in California. Looking forward, we expect that MTBE in the US will track growth in the gasoline pool at 1 to 2%. Stronger growth in the US could develop as a result of opt-ins to the federal RFG program and/or the implementation of more stringent air quality guidelines currently under consideration by the Environmental Protection Agency (EPA).

Future demand growth for MTBE is expected to come primarily from Asia, Latin America, and Europe. Growth in these regions will be driven by concerns over air quality and a desire to phase out aromatics and lead which are still used extensively in many areas. Our expectation is that MTBE will remain the highest methanol derivative growth segment over the next few years.

was presented to the board in November. Finally, in order to encourage our people to further participate in the future of their company, we extended our employee share purchase plan to all employees around the world.

## Looking Forward

Our mission is to create superior shareholder returns through the world-class operation of a global methanol pipeline. We see tremendous opportunity to build upon the important achievements made over the past year and to continue to capitalize on our global market position. Looking ahead, three strategic tools will enable us to create maximum value for our shareholders:

### 1. Low Cost

Success in this commodity business requires the lowest delivered cost into each of the major markets that we serve. Low cost remains the preeminent driver of our strategy. This requires both low-cost production at our plant gate and low-cost delivery to the customer. In 1997, we will intensify our efforts to identify additional asset restructuring opportunities. We will also identify a preferred location for a long-term supply hub to underpin our significant Asian market position, should additional economical gas supplies not be available to sustain our New Zealand operations after the expiry of current gas contracts.

6. Methanex's financial position seems quite conservative with \$384 million in cash and cash equivalents and an additional \$387 million in available lines of credit at the end of 1996. What are your plans for the cash?

The variability of methanol pricing makes it difficult to accurately forecast cash flows. In 1995, we had established cash reserves to fund the Chile II expansion. However, cash flow from operations in 1996 exceeded our forecasts and provided sufficient funding to complete this project. As a result, we continue to enjoy a strong cash position. Our first priority for the cash continues to be the pursuit of strategic investments that enhance our leadership position in the methanol industry. We are currently pursuing a number of initiatives including the construction of our third plant in Chile for an estimated cost of \$305 million. In the event that cash in excess of our strategic needs is available, the Board of Directors has indicated a preference towards share buybacks as a means of returning cash to shareholders.



## 2. *Global Positioning*

With the global marketing and logistics organization now in place, we are in an excellent position to generate greater value from the marketplace. Specifically, Methanex will use its global industry knowledge to support a preferred supplier status and thus maintain a leading market position in each major geographic region of the world. In 1997, we will implement a Global Logistics Information System to facilitate decision making and improve efficiency in our delivery network.

Our industry leadership position provides us with opportunities to lead in the development of new methanol markets. Our goal for 1997 is to achieve 200,000 tonnes of new market sales from these efforts.

## 3. *Operating Excellence*

In order to meet our goals and maintain our industry position, we will further our commitment to operating excellence with a focus on manufacturing and technology leadership, financial and risk management, people leadership, and Responsible Care.®

### 7. Do you have concerns about all the new announced methanol capacity and how it will affect pricing?

Pricing in the methanol business is largely dependent on the supply/demand balance. We enter 1997 with the supply and demand balance being tighter and producer inventories being lower than at any time during the 1994/1995 methanol price spike. The current situation is the result of poor operating performance in the industry and healthy demand on a global basis. Methanol pricing has strengthened accordingly.

In 1996, roughly 2 million tonnes of methanol capacity were added and plans for 1997 and 1998 include an additional 2.9 million tonnes. Planned capacity additions for 1997 and 1998 include Statoil in Norway (830,000 tonnes) for Q2 1997, Ar-Razi III in Saudi Arabia (850,000 tonnes) for Q3 1997, PT Kaltim in Indonesia (660,000 tonnes) for Q4 1997, and Methanol IV in Trinidad (550,000 tonnes) for Q3 1998. Plant closures will offset some of the new supply since the Texaco plant in Delaware (300,000 tonnes) was shut down indefinitely during 1996 and Methanex has announced plans to mothball production in Medicine Hat, Canada (270,000 tonnes) during

1997 and Waitara, New Zealand (530,000 tonnes) beginning in 1998. In addition, demand for methanol increased by roughly a million tonnes in 1996 and is expected to grow by a similar amount in 1997 and 1998. New market development efforts, unplanned production problems, changes in methanol inventory levels, and the possibility of additional plant shutdowns will further affect the supply/demand balance. With all these factors at play, it is not possible to forecast pricing with any degree of accuracy. The key is to be positioned with a cost structure that allows us to outperform the industry at all points in the methanol price cycle.

Some specific objectives for 1997 include building on the output of the third-party verification process to achieve continuous improvement in Responsible Care,<sup>®</sup> leveraging our manufacturing knowledge to achieve an on-stream factor of 96%, and developing a more focused technology strategy.

The theme section of this year's annual report expands on these three key strategic tools and provides a clear indication of the direction of the organization.

We are convinced that the execution of this strategy will enhance our leadership position and enable us to fulfill our corporate mission.



**Pierre Choquette**

President and Chief Executive Officer

March 6, 1997



**Corporate Leadership Team**

*Left to right:* **Cathy Ebbutt**, Executive Assistant to CEO; **Terry Duncan**, Vice President, Finance and CFO; **Saj Maqsood**, Vice President, Corporate Development; **John Linton**, Vice President, Asia Pacific; **John Gordon**, Vice President, Human Resources and Corporate Affairs; **Pierre Choquette**, President, CEO and Director; **Ron Russell**, Vice President, General Counsel and Corporate Secretary; **Rodolfo Krause**, Vice President, Latin America; **Mike Wilson**, Executive Vice President, Global Marketing and Logistics; **Ron Britton**, Vice President, North America





## Why Methanex?

We understand the methanol business and have  
the necessary tools to  
“Create superior shareholder returns through the world-class  
operation of a global methanol pipeline.”





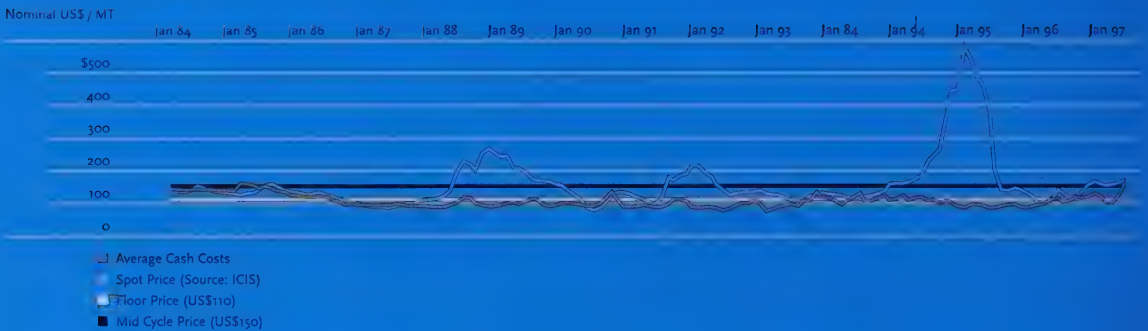


We are committed to further cost reductions of  
30% by the year 2005.

### Why Low Costs?

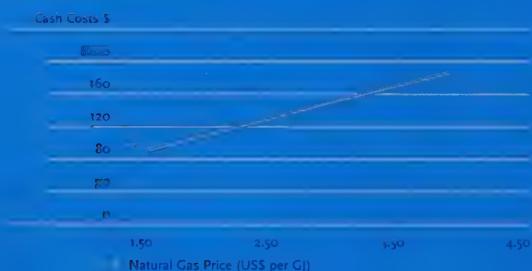
Low costs are important for success in any business, but they are critical in a commodity industry such as methanol. The importance of low costs is apparent when examining methanol pricing dynamics in the US Gulf. Pricing in this region is important because it is a key determinant of global methanol pricing.

#### Spot Pricing vs. Average Cash Costs – US Gulf



Methanol pricing has been quite volatile over the years due to rapidly changing supply and demand balances. Historically, mid-cycle methanol pricing has been roughly \$150 per tonne. Price spikes have occurred during periods of tight supply, and pricing has approached the cash costs of US Gulf producers during periods of excess supply. This price floor arises from the fact that US Gulf producers share similar cost structures and account for roughly 25% of world production. US Gulf producers' cash costs are approximately \$110 per tonne when local natural gas pricing is at \$2/GJ. However, it is important to note that costs vary significantly with natural gas pricing as can be seen in the following graph.

#### US Gulf Producers' Approximate Cash Costs vs. Natural Gas Pricing



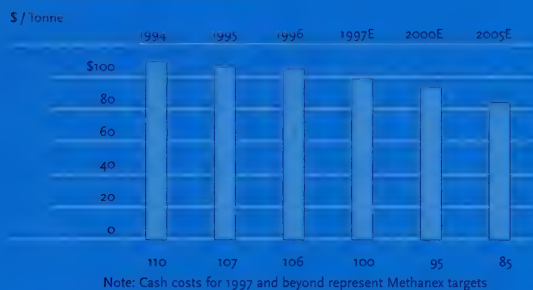
Our objective is to position ourselves to outperform the rest of the industry at the bottom of the methanol cycle when pricing approaches the cash cost floor. Our Chilean operations are capable of delivering product to the US Gulf at significantly lower costs than local producers. As a result, we are capable of generating substantial cash flow from these facilities even at the bottom of the cycle. This will reduce our cost of capital since it allows the use of greater leverage and/or it improves the ratings of our debt instruments.



### Cost Reduction Progress and Targets

Our corporation is committed to lowering operating costs. We have established a target to reduce average delivered cash costs (excluding overhead and interest charges) to \$85 per tonne by the year 2005. While we have already made significant progress, we still have some work to do to reach our ultimate objective.

#### Average Delivered Cash Costs



To accomplish this goal, we will reduce costs at existing facilities, build new low-cost capacity, and mothball high-cost capacity. Importantly, our low-cost capacity additions are being established with relatively low capital expenditures. Our second plant in Chile was constructed for approximately \$300 per tonne of capacity and our third plant is expected to be completed for \$310 per tonne of capacity. This compares very favorably to the \$350 to \$500 per tonne that is being spent by others. In addition, expected production costs for Chile II and III are among the lowest in the industry. This combination of low capital costs and low production costs is designed to deliver superior returns and create significant value for investors.

To achieve our cost reduction targets, we will focus the bulk of our production at a limited number of world-scale production hubs to strategically serve the major world markets. The Chilean operations are a good example of our production hub strategy in action. We started with a single plant in an attractive location to serve local, US, and European markets and then expanded our operations. This strategy has several economic benefits:

1. Access to low-cost natural gas
2. Capital spending is minimized due to the incremental nature of investments
3. Unit fixed costs are reduced through economies of scale
4. Logistics costs are reduced due to the ability to use large-scale shipping vessels.

Our next task is to secure a low-cost production hub to serve the Asian market. We are actively evaluating the prospects for low-cost natural gas in New Zealand, along with possible new sites in the Middle East and South East Asia. In addition to our production hubs, we will strengthen our niche assets—including Kitimat and Medicine Hat—that offer a competitive advantage as low-cost suppliers to their natural geographic markets.

Asset restructuring will continue to play a significant role in helping us to achieve our cost reduction objectives. The end result will be a permanent improvement in our cost structure that will enhance our global competitiveness.

Matheson is the global leader in methane production and marketing, and works around the clock to supply approximately 38% of the world's liquid methane.

Global pos



# Positioning

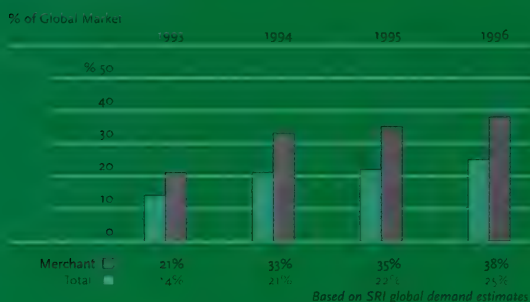
Our size and global positioning enable us  
to develop superior market intelligence that translates  
into supply security for our customers  
and value creation for our shareholders.



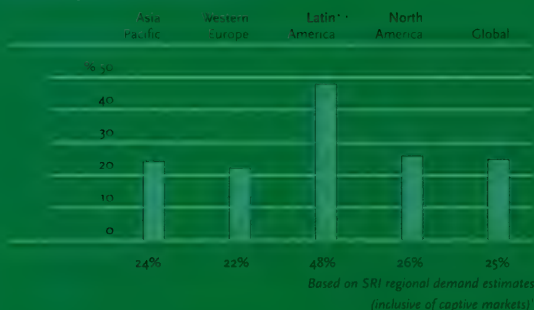
## Global Leadership

Methanex is the only methanol producer to have supply sources and marketing offices strategically located throughout the world. This global presence has become a key source of competitive advantage. In recent years, we have grown faster than the market and have increased our market share significantly.

## Global Market Share



## 1996 Regional Market Share



Importantly, we have increased sales in all regions to secure the leading position in each major market. At present, roughly 50% of our sales are in the Americas and 50% are in Asia and Europe.

Methanex's 1996 sales increased by 15% as compared to the industry average of approximately 5%. This strong sales growth can be attributed to our preferred supplier status with many of our customers and our global position, which enables us to capitalize on competitive weaknesses.

## Security of Supply = Preferred Supplier Status

Supply security is an important value consideration for our customers. During 1996, many single plant producers experienced unplanned production outages that prevented them from meeting customer requirements. Methanex, on the other hand, used its unique global supply network to satisfy its customer base. When production problems were experienced at our Fortier plant, we rearranged our supply chain to ensure uninterrupted supply.

This security of supply, coupled with our global market knowledge, has enabled us to attract many of the world's larger methanol consumers. Customers who operate global businesses see value in dealing with a supplier of similar focus, and we are pleased that many of our global customers consider us their business partner.

(1) Total and regional market shares include captive markets.

Captive markets refers to methanol production that is used for internal consumption. Roughly 35% of world methanol demand is captive.

### World-Class Supply Chain Management

Transportation makes up a significant proportion of our overall costs. In 1995, we re-engineered the global Supply Chain Group with a mandate to globalize the shipping and logistics activities to provide improved customer service and cost efficiency. In 1996, we added three 30,000 tonne time charters to our fleet and are adding a further two 45,000 tonne vessels in early 1997, representing a time charter capacity increase of approximately 60%. Methanex now has a total of 13 time charters. The expanded fleet is expected to result in improved turnaround efficiency, lower costs, and a high degree of operating flexibility.

On the operational side, we have entered into a limited number of swap arrangements with other producers where we trade material in different parts of the world to reduce overall costs. We have also initiated, on a selective basis, the transport of other products during return voyages.

### Market Intelligence

Our global position provides us with valuable market information from each major region and a detailed understanding of regional supply and demand balances. The latest developments are communicated in real time via conference calls and electronic exchanges between members of our Global Marketing Team, and this information is then incorporated into our flexible operating plan.

However, our market intelligence is not restricted to methanol; we have also developed an intimate knowledge of world natural gas and methanol derivative markets. We are continually strengthening our competitive intelligence since we believe it provides a significant competitive advantage.

### New Market Development

As the largest methanol supplier, we believe stimulating primary demand for methanol will create significant value. We are committed to playing a leading role in the development of new markets for methanol, with a particular focus on the energy sector.

Some applications include methanol/ethanol/gasoline (MEG) blends, fuel blends, and direct methanol fuel cell technology. These opportunities represent significant new potential markets for methanol and we are currently leading a number of growth initiatives.

### Relationship between Global Positioning and Low Cost

Our global market position provides the fundamental underpinning which allows us to pursue a focused low-cost strategy. The production hub strategy we are implementing in Chile and developing for Asia requires a significant market position. Our industry leadership provides us with a unique opportunity to capitalize on this strategy.



The way we conduct our business

is very important to us





### Manufacturing and Technology Leadership

Methanex owns ten separate operating units and has ownership positions and/or marketing agreements with three additional plants. Our extensive operating experience has enabled us to become leading practitioners in the industry. Methanol process technology is available from a number of licensors and engineering contractors, however, our operating know-how has enabled us to make many improvements to their base technology. Our approach to new projects includes building strong relationships with technology licensors and engineering contractors so as to provide for optimal Methanex contribution to the project. The low capital cost and successful start-up of our second plant in Chile provide evidence that such an approach is paying off.

Our Global Manufacturing Team performs regular audits at all of our plants to ensure we transfer know-how between facilities and maintain the highest operating standards. We are guided by the philosophy of continuous improvement in all aspects of our operations, including plant efficiency, on-stream factor, and preventative maintenance.

Plant efficiency is a key determinant of operating costs and is measured by the amount of natural gas that is required per tonne of methanol produced. Our operating facilities are already among the most efficient in the world and we continue to strive for further improvements. Reliability is another important determinant of operating costs and, in 1996, plants operated by Methanex achieved an on-stream factor of 95% which is well above the industry average estimated to be 90%.

This achievement is particularly impressive given that scheduled shutdowns are required every three to four years to replace catalyst and perform other maintenance activities. These planned turnarounds generally take three to four weeks to complete and thus account for approximately half of annualized downtime. We have targeted an on-stream factor of 96% which implies we operate our plants 350 days per year.

For the longer term, we have committed technical resources and are developing specific technology partnerships to significantly reduce capital and operating costs for new methanol plants. This should allow access to more remote feedstock, including offshore gas reserves. The concept of a floating methanol plant to exploit such opportunities has been proposed by others but Methanex is the only plant operator to pursue the technology. This is an indication of our commitment to keep Methanex at the forefront of technology development and cost reduction.

We are proud of our existing manufacturing capability and are striving to ensure it remains a source of competitive advantage.

### Financial and Risk Management

The cyclical nature of methanol pricing makes it difficult to accurately forecast cash flows. In response, we are committed to prudent financial management as reflected in the policies below:

**• Prudent financial leverage:** Our existing leverage is roughly 25% debt and 75% equity. However, as our cost structure improves, we will be able to increase this leverage.

**• Debt characteristics:** We will ensure our debt is appropriate for the cyclicity of the industry.

**• Sufficient working capital expenditures:** Due to the uncertainty surrounding future cash flows, we will ensure funds are available to complete announced projects.

**• Cash liquidity:** Strategic development of the business is the top priority for cash, and as such we make no commitment to sustained distributions to shareholders.

**• Risk management:** Various hedging instruments are used for currencies and natural gas purchases.

### People & Leadership

We view employees as a tremendous source of competitive advantage. In order to attract and retain highly skilled people, it is essential for us to be recognized as an outstanding employer. Our recent employee survey was a very useful gauge of employee sentiment and the results compared quite favorably with those of other leading companies.

Our current focus is to deliver high performance people leadership initiatives. These include a training and development program for senior management personnel and re-engineered benefit programs which better reflect the needs of today's workforce and the desire of our employees to share in the success of our corporation.

### Responsible Care®

Responsible Care® is an ethic, an attitude, and a method of thinking about the way we do business and our role in society.

As members of the international chemical industry, we have voluntarily adopted Responsible Care® to emphasize our long-term commitment to the community, occupational health and safety, and the protection of the environment. The standards of Responsible Care® serve as a benchmark in the chemical industry and form an integral part of how we operate. The guiding principles governing Responsible Care® can be found on the back cover of this annual report.

We have witnessed growing evidence of benefits resulting from Responsible Care® in Canada. Feedback from provincial and federal governments is positive, and has resulted in a more collaborative role by the Canadian Chemical Producers' Association (CCPA) in the development of public policy. This reduces the frequency of unanticipated regulatory changes and means fewer resources are spent on reactive measures.

We have extended the Responsible Care® ethic to our operations in Chile and New Zealand and aim to have these operations verified by March 1997 in a similar fashion to those in North America which were verified in November 1996. We are committed to extending the Responsible Care® ethic to all of our operations around the world.



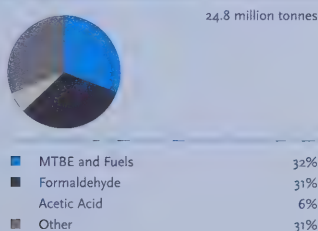


## Management's Discussion & Analysis

### Outlook

Demand continues to be strong and stable for methanol, both as a feedstock for chemical derivatives and in the energy sector as a feedstock for Methyl Tertiary Butyl Ether (MTBE).

#### Global Methanol Demand 1996



Methanol is used in the production of formaldehyde, acetic acid and numerous other chemical derivatives. These chemical derivatives are in turn used to produce thousands of different end-use products. Accordingly, demand growth for methanol from chemical derivatives has traditionally been similar to the growth in global gross domestic product (GDP). Global GDP growth was 3.2% in 1996, and is expected to remain healthy in 1997.

Methanol is used in the energy sector most significantly as a feedstock for MTBE. MTBE and fuels are the largest end use of methanol representing approximately 32% of global methanol demand. In 1996, MTBE demand increased 14% in the United States due to the state-wide introduction of reformulated gasoline (RFG) in California as an initiative to improve air quality. In 1997, demand for MTBE in the United States is expected to increase approximately 1–2% with the growth in the gasoline pool. This growth could be enhanced if more jurisdictions voluntarily opt into the RFG program under the Clean Air Act. In addition, there is starting to be a shift toward the use of MTBE as an oxygenate for cleaner air in regions such as Mexico, Southeast Asia, Korea and parts of Europe. In other regions of the world, MTBE is used primarily as an octane enhancer with demand growth driven by the increase in the gasoline pool. The opportunities for MTBE growth in regions other than the United States has led to the Company's expectation that MTBE will remain the highest methanol derivative growth segment over the next few years.

Currently, methanol is also used directly in automobile fuel, the most significant consumption of which is in Brazil. There are also future opportunities for the use of methanol as a fuel, as methanol can be used in fuel cells for power generation and transportation. Both Daimler-Benz and Toyota are planning to introduce methanol-based fuel cell prototype cars. In addition, Methanex is actively promoting the development of M85 (85% methanol / 15% gasoline) fleet vehicles and diesel-methanol fuel blends for buses.

Known methanol capacity additions for 1996 to 1998 are as follows:<sup>(1)</sup>

(thousands of tonnes)	1996	1997	1998
TTMC II (Q2)	550	—	—
BP/Sterling (Q3)	450	—	—
Chile II (Q4)	925	—	—
Statoil (Norway) (Q2)	—	830	—
Ar Razi III (Saudi Arabia) (Q3)	—	850	—
PT Kaltim (Indonesia) (Q4)	—	660	—
Methanol IV (Trinidad) (Q3)	—	—	550
	<b>1,925</b>	<b>2,340</b>	<b>550</b>

(1) Included in the table are only those projects for which construction is known to be underway.

As with all commodities, it is very difficult to predict the balance of supply and demand for methanol. Supply is affected by the timing of commencement and extent of new capacity, industry operating rates and the economics of currently shut-in methanol capacity in regions such as Eastern Europe and China. Demand is affected by world economic growth, the timing and extent of the drive to cleaner burning fuels and global inventory levels. Unexpected changes in any one of these factors can have a significant impact on the balance of supply and demand and, accordingly, the price of methanol.

The future impact of the factors affecting methanol supply and demand is uncertain. Regardless of the outcome, Methanex is well positioned as a low-cost producer that can efficiently deliver methanol through its global supply network from strategically located production sites around the world.

### 1996 Consolidated Results

For the year ended December 31, 1996, earnings before write-down were \$85.5 million compared to net earnings of \$191.7 million for the year ended 1995. After giving effect to a \$105 million (\$93.4 million, net of tax) write-down of facilities that will be idled, Methanex recorded a loss of \$7.9 million in 1996. Consolidated revenues were \$945.7 million compared to \$1.25 billion in 1995. Earnings from operations – that is earnings before interest expense, interest income, other (net) and income and other taxes – were \$97.5 million compared with \$303.3 million in 1995. The decrease in earnings from operations of \$206 million is comprised as follows:

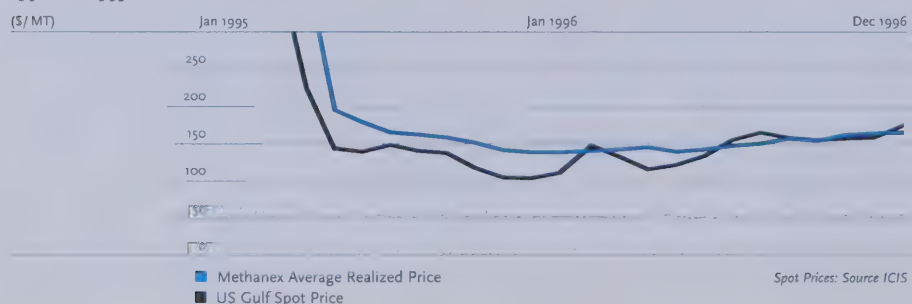
Twelve Months 1996 Versus Twelve Months 1995	(\$ millions)
Price of produced methanol	(284)
Sales volume	34
Purchased methanol contribution	16
Cost of natural gas	30
Depreciation	(16)
Other, net <sup>(1)</sup>	14
<b>Decrease in operating earnings</b>	<b>(206)</b>

(1) Includes insurance and non-income tax recoveries and change in gasoline contribution.

### Price of Methanol

Earnings are highly sensitive to fluctuations in methanol prices (see Factors Affecting Revenues and Costs). Methanol is a commodity and its price is ultimately based on the supply/demand balance. The supply/demand dynamics are complex and this has led to volatility in price. During 1996, the Company generated \$946 million (\$149 per tonne) of revenues compared with \$1.2 billion (\$222 per tonne) in 1995. The higher price realized in 1995 was a result of extremely favorable pricing in early 1995.

### 1996 and 1995 Methanol Prices





In the first quarter 1996, contrary to the Company's belief that the market was fundamentally in balance, U.S. spot pricing came under pressure and spot prices declined. In the second quarter, as a result of continued strong demand, competitor and Methanex plant outages and delays of new capacity, methanol prices began to strengthen. This trend continued throughout the remainder of 1996 and is continuing in early 1997.

Methanol demand was healthy in all major sectors in 1996.

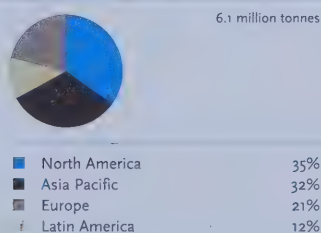
In 1996, MTBE demand in the U.S. increased 14% over 1995 largely due to the introduction of state-wide RFG in California. MTBE is the oxygenate of choice for U.S. producers of RFG, which makes up approximately 30% of the U.S. gasoline pool.

Formaldehyde demand in 1996 grew 3% over 1995. Most of this demand growth was in North America, where 1996 housing starts were at their highest level in a decade. Demand for other methanol derivatives grew in line with year over year industrial growth.

#### *Methanol Sales Volumes*

Methanex markets methanol manufactured in its own plants as well as third-party product. In 1996, total sales increased by 15% to 6.1 million tonnes compared to 5.3 million tonnes in 1995. Sales of Company-produced methanol increased by 16% to 4.6 million tonnes compared to 3.9 million tonnes in 1995. This increase, which is significantly greater than the industry growth as a whole, has been achieved primarily through increased sales to our existing customer base as a result of Methanex's demonstrated security of supply and operating flexibility. The Company also increased its sales by penetrating additional markets such as Southeast Asia and China.

#### *1996 Sales Volume by Market*



#### *Methanol Production*

(thousands of tonnes)

	1997 Nominal Rated Capacity <sup>(1)</sup>	1996 Nominal Rated Capacity <sup>(1,2)</sup>	Production 1996	Production 1995
Kitimat	500	500	436 <sup>(3)</sup>	409
Medicine Hat	1,100	1,100	1,047	973
Fortier <sup>(4)</sup>	400	400	248 <sup>(5)</sup>	314
Motunui	1,900	1,900	1,297	852
Waitara Valley	530	530	549	523
Chile I	800	800	853	841
Chile II	925	—	14	—
Enron	—	—	11	94
	6,155	5,230	4,455	4,006

(1) Based on available capacity.

(2) Excludes Chile II, 925,000 tonnes (start-up late December 1996).

(3) Planned turnaround, October 1996.

(4) Represents Methanex's 70% share.

(5) Facility shut-down in the first half of 1996 due to high production costs and production problems.

The Company's Fortier, Louisiana facility was shut down for most of the first half of 1996 due to high production costs and production problems. To meet customer demand, Methanex made strategic purchases of methanol on the spot market and increased production at the Motunui site in New Zealand, using our operating flexibility to reduce gasoline production in favor of methanol production.

As part of the implementation of Methanex's low-cost strategy, higher cost facilities will be idled as new low cost capacity comes on stream. In 1997, one of the small Medicine Hat facilities will be idled. Beginning in 1998, Methanex intends to concentrate the New Zealand production in the larger Motunui site to further reduce costs, while matching methanol production capacity to contracted natural gas. As a result, the Waitara Valley facility will be idled. In addition, in 1999, the second Medicine Hat facility will be idled.

#### *Purchased Product Contribution*

During the year, sales of purchased product were 1.6 million tonnes compared to 1.4 million tonnes in 1995. The Company supplemented purchases under long-term off-take agreements with spot purchases to meet customer requirements. The contribution from purchased product increased by \$16 million from 1995. The contribution was lower in 1995 due to the impact of falling prices on purchased inventory where Methanex accepted the price risk.

#### *Price & Sales Volume of Gasoline*

The Motunui facility located in New Zealand uses unique technology that enables the conversion of crude methanol to either chemical grade methanol or synthetic gasoline. During 1996, the Company sold 182 thousand tonnes (1.6 million barrels) of synthetic gasoline compared with 308 thousand tonnes (2.7 million barrels) in 1995 reflecting increased methanol production. The 1996 cash contribution from gasoline was not significantly different from the 1995 contribution.

Gasoline from the Motunui facility is sold in the New Zealand wholesale market.

#### *Natural Gas Cost*

Natural gas is the principal feedstock in the manufacture of the Company's methanol and represents a significant portion of production costs.

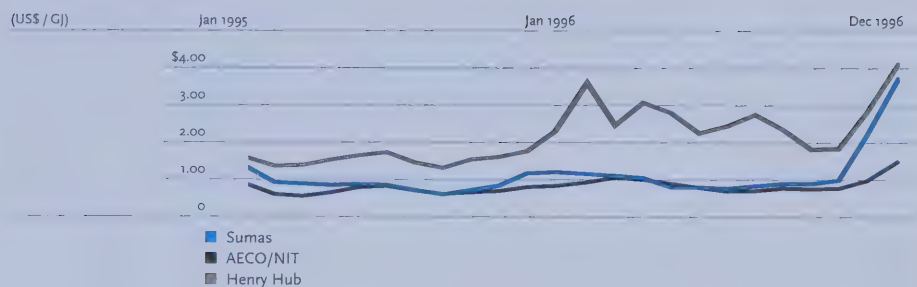
#### *North American Natural Gas*

The Fortier facility, representing less than 10% of Methanex's global production, is subject to the U.S. Gulf natural gas market. Natural gas in the United States was subject to significant price volatility in late 1995 and throughout 1996. Natural gas prices rose in late 1995 and remained high throughout 1996 due to historically low inventory levels as well as cold winter and hot summer weather.

Excess supply and limited transportation to U.S. markets have generally kept natural gas prices for the Kitimat and Medicine Hat facilities stable relative to the U.S. Gulf market. This was the case for most of 1996. However, in November 1996, low inventory levels, early cold winter weather and increased demand from the United States caused Canadian gas prices to rise. Based on historical trends, gas prices generally decline by the end of the winter season. However, the duration of the current price volatility of natural gas in Western Canada cannot be predicted.

In 1996, gas costs for the North American plants increased by \$8 million over 1995.

### Natural Gas Price Indexes



In general, natural gas for the Kitimat facility is priced from the Sumas index, natural gas for the Medicine Hat facility is priced from the AECO/NIT index, and natural gas for the Fortier facility is priced from the Henry Hub index.

### Chile Natural Gas

The natural gas supply for Methanex's original plant in Chile (Chile I) is secured under a long-term take-or-pay contract to the year 2008. The purchase price increases by a price step in 1997 and by reference to an increase in U.S. inflation in 1997 and 1998. In addition, there is an escalator based on a formula related to prevailing methanol prices.

In 1995, additional natural gas costs were \$38 million due to the very high methanol prices in early 1995. There was no additional natural gas cost in 1996.

### New Zealand Natural Gas

The New Zealand gas supply is secured under long-term take-or-pay contracts denominated in New Zealand dollars. In New Zealand dollar terms, the cost of the natural gas did not change significantly from the prior year.

### Depreciation

In 1996, depreciation and amortization increased by \$16 million. This increase is due primarily to higher depreciation in New Zealand as a result of increased production and higher depreciation rates.

### Non-Operating Income/Expense

(\$ millions)	1996	1995
Interest expense	20.4	32.1
Interest income	23.0	22.3
Write-down of property, plant and equipment	105.0	—
Debt retirement costs	—	36.5
Other, net	—	2.5

In 1996, interest expense was \$20.4 million compared with \$32.1 million in 1995. The change results primarily from increased interest capitalized related to the construction of the second plant in Chile. During the year, \$14 million of interest was capitalized compared to \$3 million in 1995.

Interest income represents interest earned on cash or cash equivalents. Interest revenue did not change significantly year over year.

In 1996, Methanex took a charge of \$105 million (\$93.4 million, net of tax) related to the Medicine Hat and Waitara Valley facilities that will be idled. The charge consists of a write-down of book value of approximately \$62 million, an accrual for site restoration costs of approximately \$28 million and \$15 million of other costs.



## Taxes

### Net Earnings Before Write-Down of Property, Plant and Equipment

(\$ thousands)	Excluding Write-Down	Impact of Write-Down	Including Write-Down
Earnings (loss) before income and other taxes	100,162	(105,000)	(4,838)
Income and other taxes	(14,614)	11,600	(3,014)
Net earnings (loss)	85,548	(93,400)	(7,852)

The effective tax rate related to the recovery of income taxes on the write-down of property, plant and equipment is lower than the combined Canadian statutory tax rate. This is the result of two factors: (i) more than half of the write-down relates to assets in New Zealand, a jurisdiction in which the Company has significant unrecognized tax deductions in excess of accounting deductions; and (ii) no tax deduction is available for a significant portion of the Medicine Hat write-down.

The Company's effective tax rate is lower than the combined statutory rate in Canada, due to: (i) a substantial amount of the Company's earnings are generated in jurisdictions where the tax rate is lower; and (ii) the recognition of the tax benefits that had not been recognized for accounting purposes. The tax rate for 1996 excluding the write-down was 14.6%. This compares to 24.6% in 1995. The tax rate was lower in 1996 due to lower methanol prices which reduced the proportion of earnings in higher tax jurisdictions. Assuming similar methanol pricing levels as in 1996, the tax rate in 1997 is expected to increase due primarily to a higher proportion of income being earned in taxable jurisdictions.

## Factors Affecting Revenues & Costs

(\$ millions)

### Revenues

Price of methanol per 1¢/gallon – \$3.33/tonne <sup>1</sup>	\$18.0m
Price of gasoline per \$1 barrel <sup>2</sup>	\$1.0m

### Costs

Increase in North American gas costs by \$0.10/gigajoule <sup>3</sup>	\$2.0m
Change in New Zealand dollar by U.S. 1¢ <sup>4</sup>	\$1.0m
Increase in Canadian dollar by U.S. 1¢ <sup>5</sup>	\$0.2m

(1) Assumes sales of produced product of 5.5 million tonnes. Generally, prices are determined by the supply/demand balance. Oversupply often drives prices down to cash costs. Margins widen when capacity utilization is high.

(2) Assumes sales of synthetic gasoline of 1 million barrels. The amount of gasoline produced and sold will depend on the amount of methanol versus gasoline produced from the Motunui facility located in New Zealand.

(3) Based on production of 1.8 million tonnes, the Company uses approximately 70 petajoules of natural gas to service the Kitimat, Medicine Hat and Fortier facilities. At December 31, 1996, Methanex has commitments to purchase approximately 50 petajoules related to its 1997 North American gas requirements at fixed prices. The sensitivity is based on the purchase of a further 20 petajoules of natural gas.

(4) For 1997, the Company has forward exchange contracts covering approximately 50% of its exposure to the New Zealand dollar (NZ\$). The balance of the Company's NZ\$ exposure is covered by option cap arrangements which eliminate exposure to fluctuations in the NZ\$ above the cap exchange rate. The sensitivity assumes that the NZ\$ is trading below the cap level.

(5) Based on estimates of unhedged operating costs (excludes natural gas feedstock costs).

### Liquidity & Capital

The financial position of the Company continues to be very strong. Cash generated from operations before changes in non-cash working capital was \$223.8 million compared to \$362.4 million in 1995. The higher cash generation in 1995 was due to high methanol prices realized in 1995.

The strong cash generation in 1996 has allowed Methanex to finance the completion of the second plant in Chile with no appreciable impact on liquidity.

(\$ millions)	1996	1995
Cash balance	384	400
Liquidity <sup>1</sup>	771	787
Long-term debt	398	421
Shareholders' equity	1,112	1,113
Long-term debt / Capitalization	26%	27%
EBITDA interest coverage <sup>2</sup>	6.8x	12.1x

(1) Defined as cash and undrawn credit facilities.

(2) Includes interest capitalized to property, plant and equipment. EBITDA is before write-down of property, plant and equipment (1996) and debt retirement cost (1995).

Moody's Investors Service increased their rating of Methanex's public debt to investment grade Ba3 in 1996. At the same time, Fitch Investors Service increased their rating to BBB+ and Standard and Poors confirmed their BBB+ rating.

### Capital Expenditures

(\$ millions)	Estimated 1997	1996	1995
DIV	—	—	34
Chile II	30	146	106
Chile III	30	2	—
Capital maintenance, turnarounds and catalyst	34	26	42
	94	174	182

The Company intends to fund its capital expenditures from existing liquidity and operating cash flow.

#### Chile II

In late December 1996, Methanex began commissioning the second plant in Chile (Chile II) with a capacity of 925,000 tonnes. The plant commenced commercial production on December 24, 1996 and attained its nameplate capacity on January 5, 1997. Chile II takes advantage of shared infrastructure, low construction costs and low operating costs to deliver methanol – at the lowest cost to the Company – to any market globally. Natural gas supply to the expanded facility is secured under a U.S. dollar denominated long-term take-or-pay contract to 2016. The natural gas purchase price includes both a base cost and an escalator which is based on a formula related to prevailing methanol prices.

#### Chile III

In September 1996, Methanex announced its intention to construct a 975,000 tonne capacity third plant (Chile III) adjacent to the existing facilities. The capital cost of the plant is estimated to be \$305 million and will have a cost structure similar to Chile II. Natural gas supply will be secured under a 20-year U.S. dollar denominated contract. The natural gas purchase price includes both a base cost and an escalator which is based on a formula related to prevailing methanol prices.

## Risk Management

Methanex manages risk in two main areas: manufacturing risk and financial risk.

### *Manufacturing*

Methanex continually assesses the risk posed by its facilities and production processes with a view to reducing or minimizing exposures. Methanex assessments typically consider issues including plant reliability, safety, and compliance with environmental guidelines under the principles of Responsible Care®

Methanex's management of the risk posed by its operations enables the Company to negotiate more effectively with insurers.

### *Financial Risk*

The dominant currency in which Methanex transacts its business is the U.S. dollar, which is the Company's reporting currency. However, a portion of Methanex's revenues and expenses are denominated in other currencies, principally the New Zealand dollar and the Canadian dollar. To a lesser extent expenses are affected by fluctuations between the U.S. dollar and the Chilean peso, and in the case of revenues, the German Deutschemark.

Methanex manages its exposure to foreign currencies through forward exchange contracts and currency options. These instruments are used for hedging purposes, not for speculation. Hedging activity is reviewed regularly by the Audit, Finance & Risk Committee of the Board of Directors.

In New Zealand, virtually all of the natural gas and operating costs are incurred in New Zealand currency. In 1993, Methanex entered into average rate forward exchange contracts to purchase New Zealand dollars in each year from 1994 through 1997. During 1995, Methanex purchased option collar arrangements which, in effect, limit the foreign currency exposure to a specified range of foreign exchange rates measured against the U.S. dollar in each year from 1998 to 2000. In addition, during 1996, Methanex purchased option cap arrangements which, in effect, limit a portion of the foreign currency exposure over a specific foreign exchange rate measured against the U.S. dollar for each year from 1997 to 2002. These financial instruments serve to hedge virtually all of the New Zealand operating costs through 2000 and one half thereafter to 2002.

In Canada, natural gas costs, natural gas transmission costs, operating costs and certain rail transportation costs are incurred in Canadian currency. All the Canadian dollar exposure relating to natural gas fixed price purchase commitments and 70% of the non-natural gas costs have been hedged using average rate forward exchange contracts and average rate option cap arrangements.

To protect against future North American natural gas price volatility and to take advantage of favorable pricing in Canada, the Company enters into feedstock purchase contracts. For the Fortier facility, 60% of the natural gas requirements are at fixed prices for the 1996/97 winter period. All of the 1997 winter gas requirements for the Kitimat facility are at fixed prices. For Medicine Hat, 50% of 1997 and 1998 gas requirements are at fixed prices.

Methanex also hedges certain contracted revenue streams and capital expenditure commitments through forward currency contracts.



for the years ended December 31, 1996 and 1995

## Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Methanex Corporation as at December 31, 1996 and 1995 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada

February 25, 1997

## Responsibility for Financial Reporting

The consolidated financial statements and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, have incorporated estimates based on the best judgment of management.

Management is responsible for the development of the internal controls over the reporting process. Management believes that the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit, Finance and Risk Committee. The Committee, consisting of four non-management directors, reviews the consolidated financial statements, annual report, annual information form and management discussion and analysis, and recommends them to the Board for approval. The Committee considers, for review by the Board and approval by the shareholders, the appointment of the external auditors. In addition, the Committee reviews and approves unaudited interim financial statements, news releases on interim financial results, and interim reports to shareholders before their distribution. The Committee meets regularly with management and external auditors to discuss internal controls and significant accounting and financial reporting issues.

KPMG, Chartered Accountants, the Company's auditors, have provided an independent professional opinion on the fairness of these consolidated financial statements. Their opinion is included in the annual report. KPMG have full and unrestricted access to the Committee.



Brian D. Gregson

Chairman of the Audit,  
Finance and Risk Committee



Pierre Choquette

President and  
Chief Executive Officer



Terence W. Duncan

Vice President, Finance  
and Chief Financial Officer

February 25, 1997

## Consolidated Balance Sheets

(thousands of U.S. dollars)

December 31, 1996 and 1995	1996	1995
<b>Assets</b>		(Restated – Note 1(k))
Current assets:		
Cash and cash equivalents	\$ 383,892	\$ 399,645
Receivables (note 2)	207,847	173,045
Inventories	68,129	64,223
Prepaid expenses	9,237	13,351
	669,105	650,264
Property, plant and equipment (note 3)	1,020,546	1,014,128
Other assets (note 4)	81,513	84,209
	\$ 1,771,164	\$ 1,748,601
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 119,179	\$ 111,686
Current maturities on long-term debt and other long-term liabilities	4,932	24,357
	124,111	136,043
Long-term debt (note 5)	398,241	401,331
Other long-term liabilities (note 6)	64,024	29,582
Deferred income taxes	72,548	68,360
Shareholders' equity		
Capital stock (note 7)	774,985	768,178
Retained earnings	337,255	345,107
	1,112,240	1,113,285
	\$ 1,771,164	\$ 1,748,601

See accompanying notes to consolidated financial statements.

Approved by the Board:



Pierre Choquette  
Director



Brian D. Gregson  
Director



## Consolidated Statements of Earnings and Retained Earnings

(thousands of U.S. dollars)

December 31, 1996 and 1995	1996	1995
	(Restated – Note 1(k))	
Revenue	\$ 945,707	\$ 1,249,179
Cost of sales and operating expenses	734,122	848,256
Depreciation and amortization	114,055	97,575
	848,177	945,831
Earnings from operations before undernoted items	97,530	303,348
Interest expense	(20,361)	(32,090)
Interest income	22,993	22,257
Write-down of property, plant and equipment (note 3)	(105,000)	—
Debt retirement cost	—	(36,543)
Other, net	—	(2,515)
	(102,368)	(48,891)
Earnings (loss) before income and other taxes	(4,838)	254,457
Income and other taxes (note 9)	3,014	62,719
Net earnings (loss)	(7,852)	191,738
Retained earnings, beginning of year	345,107	209,670
Excess of repurchase price over assigned value of common shares (note 7)	—	(56,301)
Retained earnings, end of year	\$ 337,255	\$ 345,107
Weighted average number of common shares outstanding	188,980,543	190,273,479
Net earnings (loss) per common share	\$ (0.04)	\$ 1.01

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Financial Position

(thousands of U.S. dollars)

December 31, 1996 and 1995	1996	1995
<b>Cash provided by (used in):</b>	(Restated — Note 1(k))	
<b>Operations:</b>		
Net earnings (loss)	\$ (7,852)	\$ 191,738
Add (deduct):		
Depreciation and amortization	114,055	97,575
Write-down of property, plant and equipment	105,000	—
Deferred income taxes	4,188	26,952
Debt retirement cost	—	36,543
Other	8,460	9,647
Cash generated from operations before changes		
in non-cash working capital	223,851	362,455
Receivables and accounts payable and accrued liabilities	(25,371)	59,842
Inventories and prepaid expenses	(2,326)	45,457
	196,154	467,754
<b>Financing:</b>		
Proceeds on issue of debt	—	397,904
Increase in other long-term liabilities	1,049	33,999
Retirement of senior secured second priority notes	—	(304,467)
Repayments of long-term debt and other long-term liabilities	(27,671)	(114,168)
Issue of shares for cash	928	8,781
Shares repurchased	—	(85,299)
Tax benefits realized related to capital stock	5,879	8,208
	(19,815)	(55,042)
<b>Investments:</b>		
Property, plant and equipment	(174,322)	(182,067)
Accounts payable and accrued liabilities related to capital expenditures	(7,208)	(21,247)
Proceeds on sale of ammonia operations	—	43,340
Other assets	(10,562)	(45,318)
	(192,092)	(205,292)
Increase (decrease) in cash	(15,753)	207,420
Cash and cash equivalents, beginning of year	399,645	192,225
Cash and cash equivalents, end of year	\$ 383,892	\$ 399,645

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

(Tabular dollar amounts are shown in thousands of U.S. dollars, except per share amounts)

Years ended December 31, 1996 and 1995

### 1. Significant accounting policies:

#### (a) Basis of presentation:

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Methanex Corporation and its subsidiaries (the "Company"). Preparation of these consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

#### (b) Reporting currency:

The majority of the Company's business is transacted in U.S. dollars and, accordingly, the consolidated financial statements have been measured and expressed in that currency.

#### (c) Cash equivalents:

Cash equivalents include securities with maturities of three months or less when purchased.

#### (d) Receivables:

The Company provides credit to its customers in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. Credit losses have been minimal and within the range of management's expectations.

#### (e) Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

#### (f) Property, plant and equipment:

Property, plant and equipment are recorded at cost. Financing costs incurred during construction are capitalized as part of the cost of the asset. Depreciation is provided on a straight-line basis or a unit-of-natural-gas consumption basis, as appropriate to the asset, to amortize the cost of the assets over their estimated useful lives.

Production from the New Zealand operations is dependent on the supply of gas from the Maui and Kapuni fields. A reduction in the recovery of natural gas from the fields underlying the contracted gas could potentially reduce the Company's gas entitlements. There can be no assurance that the Company will be able to secure additional gas in New Zealand at economically attractive terms.

Routine repairs and maintenance costs are charged against current operations. At intervals of two or more years, the Company conducts a shut-down and inspection of significant units (turnaround) at its plants to perform necessary repairs and replacements of catalyst. Costs associated with these shutdowns are deferred and amortized over the period until the next planned turnaround.

Obligations for future removal and site restoration costs are provided for on a straight-line basis or a unit-of-natural-gas consumption basis, as appropriate to the related asset, to amortize the costs over the estimated useful lives of the assets when a reasonably definitive estimate of the costs can be made.

#### (g) Other assets:

Other assets are recorded at cost. Amortization is provided on an appropriate basis to charge the cost of the assets against earnings as the related asset is utilized.



### 1. Significant accounting policies (continued):

#### (h) Foreign currency translation:

The Company translates foreign currency denominated monetary items at the rates of exchange prevailing at the balance sheet dates and revenues and expenditures at average rates of exchange during the year. Foreign exchange gains or losses are included in earnings.

#### (i) Financial instruments:

During 1995, the Company adopted new Canadian Institute of Chartered Accountants recommendations with respect to financial instruments. The adoption of the new standard did not impact the earnings of the Company.

The Company uses various derivative financial instruments to reduce its operating exposures such as fluctuations in foreign exchange rates, interest rates and feedstock costs. The gains and losses of these hedges are deferred and recognized in income in the same period and in the same financial statement category as the income or expense arising from the corresponding hedged positions.

Premiums paid or received with respect to financial instruments are deferred and amortized to income over the effective period of the contracts.

#### (j) Income taxes:

Deferred income taxes are provided on differences in timing between the treatment for income tax and accounting purposes of various items of income and expenditure.

The Company does not accrue for taxes that will be incurred upon distributions from its subsidiaries unless it is established that it is probable that the earnings will be repatriated.

#### (k) Prior period adjustment:

The Company has settled with Revenue Canada regarding the reassessment of the Company's 1988 income tax return. These consolidated financial statements have been retroactively restated to reflect the impact of the settlement, the net effect of which is to decrease retained earnings at January 1, 1995 by \$17.9 million, decrease 1995 net earnings by \$8.4 million, increase December 31, 1995 accounts receivable by \$27.5 million and decrease other assets at December 31, 1995 by \$53.8 million.

### 2. Receivables:

	1996	1995
Trade	\$ 147,802	\$ 128,232
Other	60,045	44,813
	<u>\$ 207,847</u>	<u>\$ 173,045</u>

### 3. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net Book Value
<b>1996</b>			
Plants:			
In production	\$ 1,739,314	\$ 721,246	\$ 1,018,068
Under construction	2,478	—	2,478
	<u>\$ 1,741,792</u>	<u>\$ 721,246</u>	<u>\$ 1,020,546</u>

(Tabular dollar amounts are shown in thousands of U.S. dollars, except per share amounts)

Years ended December 31, 1996 and 1995

**3. Property, plant and equipment (continued):**

	Cost	Accumulated Depreciation	Net Book Value
1995			
Plants:			
In production	\$ 1,461,538	\$ 553,627	\$ 907,911
Under construction	106,217	—	106,217
	\$ 1,567,755	\$ 553,627	\$ 1,014,128

During the year, \$13.9 million (1995 – \$2.6 million) of interest was capitalized to plants under construction.

The write-down of property, plant and equipment of \$105 million consists of a write-down of book value of \$62 million, an accrual for site restoration of \$28 million (note 6) and an accrual of \$15 million in other costs.

**4. Other assets:**

	1996	1995
Marketing rights	\$ 30,349	\$ 34,597
Foreign currency options	16,164	5,512
Caribbean methanol interests	15,136	15,844
Prepaid natural gas	5,219	12,693
Other	14,645	15,563
	\$ 81,513	\$ 84,209

**5. Long-term debt:**

	1996	1995
7.40% unsecured notes due August 15, 2002 (effective yield 7.49%)	\$ 149,417	\$ 149,313
7.75% unsecured notes due August 15, 2005 (effective yield 7.83%)	248,824	248,687
First priority notes, varying interest rates (note b)	—	22,881
Other	—	79
	398,241	420,960
Less current maturities	—	(19,629)
	\$ 398,241	\$ 401,331

**(a) Covenants:**

The Company's long-term debt agreements contain certain covenants relating to dividends, cash distributions, cash flow coverage and leverage ratios (as defined in the agreements). The Company is in compliance with all debt covenants.

**(b) First priority notes:**

The first priority notes were secured by fixed and floating charges over substantially all of the assets of the Company. During 1996, the first priority notes were fully repaid and the security discharged.

### 5. Long-term debt (continued):

#### (c) Senior secured second priority notes:

During 1995, the Company in substance retired its senior secured second priority notes ("Notes") by exercising its covenant defeasance option with respect to the Notes and depositing in trust specified U.S. government obligations for the payment of principal, premium and interest on the Notes. As a result, the Company's payment obligations for the Notes are assured and the Notes are no longer secured by the Company's assets. The obligations of the Company under the restrictive covenants related to the Notes have been terminated. The costs incurred related to the retirement of the Notes were charged against operations in 1995.

#### (d) Undrawn operating facilities:

The Company has available an unsecured revolving bank facility of \$387 million. This facility ranks pari passu with the unsecured notes.

### 6. Other long-term liabilities:

	1996	1995
Site restoration (a)	\$ 29,000	\$ —
Marketing rights (b)	25,622	30,333
Other	14,334	3,977
	68,956	34,310
Less current maturities	(4,932)	(4,728)
	\$ 64,024	\$ 29,582

#### (a) Site Restoration

The Company has accrued for obligations for future removal and site restoration costs. Total costs for currently identified sites are estimated to be \$80 million. At December 31, 1996, the Company has accrued \$29 million. Because of uncertainties related to estimating future removal and site restoration activities, future costs related to the currently identified sites could differ from the amounts estimated. In the event that the costs are in excess of amounts estimated, management does not anticipate that they will have a material adverse effect on the consolidated financial position of the Company.

#### (b) Marketing Rights

During 1995, the Company acquired marketing rights in the United States previously held by an unrelated party. The consideration for the acquisition is payable over a five year period to January 2000, based on a formula related to methanol prices during the period. The Company has placed a letter of credit as collateral for the estimated liability.

### 7. Capital stock:

(a) The authorized share capital of the Company is comprised as follows:

- 25,000,000 preferred shares without nominal or par value; and
- Unlimited number of common shares without nominal or par value.

(b) Under covenants set out in certain debt instruments, the Company can pay cash dividends or make other shareholder distributions to the extent that consolidated shareholders' equity is equal to or greater than \$850 million.

(Tabular dollar amounts are shown in thousands of U.S. dollars, except per share amounts)  
Years ended December 31, 1996 and 1995

### 7. Capital stock (continued):

(c) Changes in the capital stock of the Company during the period January 1, 1995 to December 31, 1996 were as follows:

	Number of Common Shares	Consideration
Balance, December 31, 1994	194,798,459	\$ 780,187
Issued on exercise of incentive stock options	1,385,150	8,781
Shares repurchased	(7,218,736)	(28,998)
Tax benefits realized	—	8,208
Balance, December 31, 1995	188,964,873	768,178
Issued on exercise of incentive stock options	153,700	928
Tax benefits realized	—	5,879
Balance, December 31, 1996	189,118,573	\$ 774,985

During 1995, the Company repurchased for cancellation common shares at prices in excess of their assigned value. The cost to acquire the shares is allocated \$29 million to capital stock and \$56 million to retained earnings.

(d) At December 31, 1996 and 1995, the following common shares are reserved for outstanding incentive stock options granted to directors, officers and employees (exercise price per share expressed in Canadian dollars):

Expiry Date	Exercise Price	Outstanding December 31, 1995	Granted	Cancelled	Exercised	Outstanding December 31, 1996
Aug. 10, 2002	\$ 7.20	50,000	—	—	—	50,000
Feb. 3, 2003	\$ 7.88	511,575	—	—	138,700	372,875
Feb. 3, 2003	\$ 8.25	389,625	—	—	—	389,625
Dec. 9, 2003	\$ 10.63	312,750	—	—	15,000	297,750
Jan. 12, 2004	\$ 11.00	1,363,600	—	—	—	1,363,600
May 31, 2004	\$ 16.25	200,000	—	—	—	200,000
Sept. 30, 2004	\$ 23.75	200,000	—	—	—	200,000
Feb. 23, 2005	\$ 14.63	568,000	—	3,000	—	565,000
May 31, 2005	\$ 11.25	75,000	—	—	—	75,000
July 31, 2005	\$ 11.50	25,000	—	—	—	25,000
Oct. 31, 2005	\$ 8.88	40,000	—	—	—	40,000
Feb. 16, 2006	\$ 11.00	—	582,500	4,000	—	578,500
Total		3,735,550	582,500	7,000	153,700	4,157,350

Incentive stock options are exercisable at prices equal to the quoted market value at date of grant.



### 8. Segmented information:

The Company's operations consist of the production and sale of natural-gas-based petrochemical products and are conducted from four geographic regions. Presented below is data relative to each geographic region:

	North America	Latin America	Asia Pacific	Europe	Eliminations	Total
Revenue:						
1996	\$ 443,664	\$ 150,252	\$ 309,530	\$ 195,245	\$ (152,984)	\$ 945,707
1995	628,155	200,736	369,017	217,279	(166,008)	1,249,179
Earnings from operations:						
1996	15,730	46,323	34,315	437	725	97,530
1995	114,136	59,635	130,387	435	(1,245)	303,348
Total assets:						
1996	587,053	730,382	394,496	59,233	—	1,771,164
1995	848,856	398,938	460,998	39,809	—	1,748,601

### 9. Income and other taxes:

(a) Income tax expense differs from the amounts which would be obtained by applying the Canadian statutory income tax rate to the respective year's earnings before taxes. These differences are as follows:

	1996	1995
Canadian statutory tax rate	45.0%	45.0%
Computed "expected" taxes	(2,177)	\$ 114,506
Increase (decrease) in tax resulting from:		
Lower taxes in foreign jurisdictions	(24,657)	(45,335)
Losses not tax-effected	18,448	—
Manufacturing and processing deduction	—	(2,755)
Benefits of losses and other tax deductions not previously recognized	(3,697)	(11,457)
Non-deductible costs	15,617	8,723
Other	(520)	(963)
Total income and other taxes	\$ 3,014	\$ 62,719
Income and other taxes are represented by:		
Cash income tax	\$ (2,036)	\$ 35,407
Deferred income tax	4,188	26,952
Large corporations tax	862	360
	\$ 3,014	\$ 62,719

(Tabular dollar amounts are shown in thousands of U.S. dollars, except per share amounts)  
Years ended December 31, 1996 and 1995

#### 9. Income and other taxes (continued):

(b) As at December 31, 1996, the Company had available amounts deductible for income tax purposes of \$340 million in New Zealand in excess of accounting values. The tax benefits of these excess deductions, which are subject to final determination by taxation authorities, have not been recognized for accounting purposes. When utilized, the benefit of these amounts will be recognized in earnings.

In 1994, the Company purchased property, plant and equipment in Canada which had a cost for accounting purposes in excess of the basis for income tax purposes. This difference is being recognized in the Corporation's income tax provision on a straight-line basis as the assets are depreciated. The unamortized difference at December 31, 1996 is \$100 million.

(c) The Company has received a proposal from Revenue Canada to reassess the Company's 1991 Canadian income tax return. The potential reassessment may reduce the amount of tax depreciation available at December 31, 1991 and thereby increase cumulative income taxes and interest to December 31, 1996 in an amount aggregating \$90 million.

The Company has responded to Revenue Canada's proposal. It is not determinable whether Revenue Canada's proposal will lead to a reassessment. If a reassessment is issued, the Company will file a notice of objection to appeal the reassessment. Based on advice received from legal counsel, management believes its position should be sustained.

#### 10. Derivatives:

##### (a) Foreign exchange risk management:

A substantial portion of the Company's business is transacted in its reporting currency, the U.S. dollar. At the Company's Canadian, New Zealand and Chilean production facilities, certain of the underlying operating costs and capital expenditures are incurred in local currencies. The Company uses derivative financial instruments to reduce its foreign exchange exposure on certain committed and anticipated costs related to these operations. In addition, certain revenues in Europe are realized in the Deutschemark. The Company has hedged certain of these exposures by entering into forward exchange contracts and currency options. The following table summarizes the Company's commitment to buy and sell foreign currency at December 31, 1996:

	Notional Amount	Exchange Rate	Maturity
<b>1. Purchase Contracts</b>			
Average rate forward exchange contracts	NZD 110 million	\$ 0.5382	1997
Option collar arrangements	NZD 360 million	Floor \$ 0.5628 Cap \$ 0.6685	1998 – 2000
Option cap arrangements	NZD 536 million	Cap \$ 0.7000	1997 – 2002
Average rate forward exchange contracts	CDN 258 million	\$ 0.7217	1997 – 2000
Average rate options cap arrangements	CDN 38 million	\$ 0.7126	1997 – 2000
Forward exchange contracts	CLP 25.9 billion	\$ 0.0023	1997 – 1998
<b>2. Sales Contracts</b>			
Forward exchange contracts	DEM 39 million	\$ 0.6482	1997
Forward exchange contracts	CDN 43 million	\$ 0.7368	1997

**10. Derivatives (continued):****(b) Feedstock purchases:**

The Company uses natural gas financial instruments to fix the price of a portion of its feedstock purchases. The instruments are used to moderate risk of fluctuations in feedstock prices. Natural gas financial instruments mature on various dates to October 1998. The fair value at December 31, 1996 and 1995 was less than \$2 million.

**11. Fair value disclosures:**

The carrying value and fair value of the financial instruments are as follows:

	1996		1995	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Caribbean methanol interest	\$ 11,903	—	11,903	—
Long-term debt	(398,241)	(409,050)	(420,960)	(442,529)
Derivative financial instruments:				
Forward exchange contracts	—	23,402	—	22,492
Foreign currency options	16,164	19,044	5,512	198

The fair value of the Company's long-term debt and feedstock commodity financial instruments is determined based on quoted market prices. The fair value of foreign exchange financial instruments is estimated by obtaining quotes from the Company's counterparties for the same or similar financial instruments.

The carrying values of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, and other long-term liabilities meeting the definition of a financial instrument approximate their fair value. It is not practical to estimate the fair value of the Caribbean methanol interest.

At December 31, 1996, there are unrealized gains of \$7.3 million related to commitments and options to purchase foreign currency to hedge anticipated Canadian and New Zealand operating costs. These gains, which are included in the fair value of the derivative financial instruments in the table, will be realized over the years 1997 to 2002.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparties to fail to meet their obligations. The Company deals with only highly rated counterparties, normally major financial institutions. The credit risk exposure of derivative instruments is represented by the fair value of contracts with a positive fair value at the reporting date. The credit risk amounts represent the maximum amount that would be at risk if the counterparties failed completely to perform under the contracts.

**12. Retirement plans:**

The Company has non-contributory defined benefit pension plans covering certain employees. At December 31, 1996, the estimated present value of accrued pension benefits approximated the market value of the plan's assets. The Company also has defined contribution pension plans.

Total pension costs charged to operations during the year were \$5.4 million (1995 – \$4.3 million).

(Tabular dollar amounts are shown in thousands of U.S. dollars, except per share amounts)  
 Years ended December 31, 1996 and 1995

### 13. Commitments:

(a) The Company has commitments under take-or-pay contracts to purchase annual quantities of feedstock supplies and to pay for transportation capacity related to these supplies. The minimum commitment under these contracts for the next five years is as follows:

1997	\$	204,213
1998	\$	187,887
1999	\$	170,021
2000	\$	160,063
2001	\$	158,705

(b) The Company has future minimum lease payments under operating leases relating primarily to vessel charter, terminal facilities, office space and equipment for the next five years as follows:

1997	\$	84,198
1998	\$	73,982
1999	\$	60,082
2000	\$	53,232
2001	\$	47,920

(c) The Company has commitments to purchase methanol at prices determined by specified margins at the time of purchase. The commitment under these contracts for the next five years is as follows:

1997	710,000 metric tonnes
1998	560,000 metric tonnes
1999	500,000 metric tonnes
2000	500,000 metric tonnes
2001	500,000 metric tonnes

(d) The Company is currently expanding its methanol production facilities in Chile. The Company estimates its capital expenditures for this project and for capital maintenance for all its facilities will be as follows:

1997	\$	94,000
1998	\$	245,000
1999	\$	85,000

The Company intends to fund the expansion from cash generated from operations, cash and cash equivalents and undrawn bank facilities.



**Methanex Corporation  
Annual Information Form**

March 6, 1997



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### Certain Definitions and Conversions

In this Annual Information Form, unless the context otherwise indicates, a reference to the "Company" refers to Methanex Corporation and a reference to "Methanex" refers to the Company and its subsidiaries and their respective interests in joint ventures and partnerships.

**The Company uses the United States dollar as its reporting currency.** Accordingly, unless otherwise indicated, all dollar amounts in this Annual Information Form are stated in United States dollars.

In this Annual Information Form, unless the context otherwise indicates, all references to "methanol" are to chemical-grade methanol and all quantities of crude methanol are given in chemical-grade equivalent terms (i.e., the amount of chemical-grade methanol into which such crude methanol could be converted).

Information with respect to the approximate conversions of certain units of measurement referred to in this Annual Information Form into alternative units of measurement is provided below.

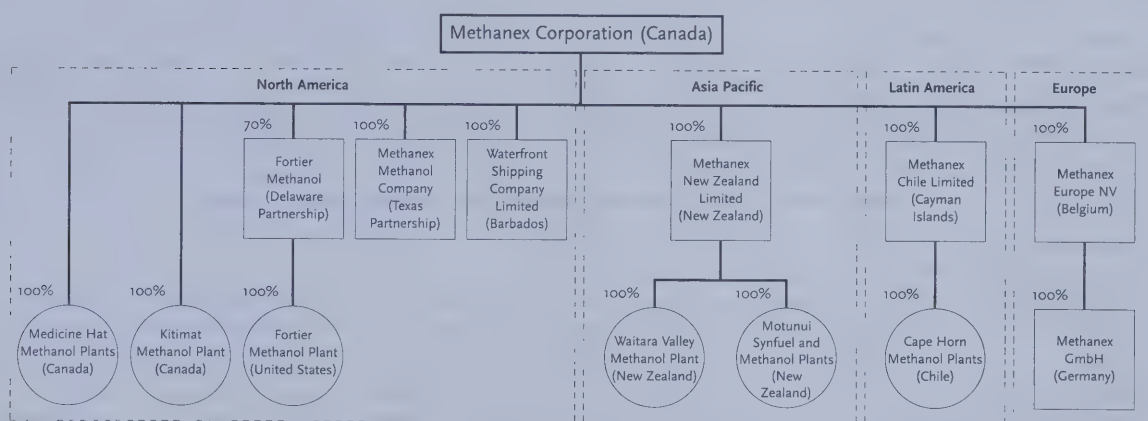
1 tonne	= 2,204 pounds or 1,000 kilograms
1 tonne of methanol	= 332.589 US gallons
1 tonne of gasoline	= 8.62 barrels or 362 US gallons
1 barrel	= 42 US gallons or 159 litres
1 petajoule	= 947.867 billion British thermal units or approximately 0.9 billion standard cubic feet of natural gas calculated on a higher heating value basis

Historical price data and supply and demand statistics for methanol set forth in this Annual Information Form are derived by the Company from recognized industry reports regularly published by independent consulting and data compilation organizations in the methanol industry, including Petrochemical Consultants International, SRI International and Tecnon (UK) Ltd.

### The Company

The Company was incorporated under the laws of Alberta on March 11, 1968 and was continued under the Canada Business Corporations Act on March 5, 1992. The head office of the Company is located at 1800 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia V6C 3M1 (telephone: [604] 661-2600).

The following chart includes the principal operating subsidiaries and partnerships of Methanex as of December 31, 1996 and, for each such subsidiary or partnership, includes the percentage direct or indirect ownership and voting interest of the Company in such subsidiary or partnership and the jurisdiction of its organization. The chart also shows the principal production facilities of Methanex.



## Business of the Company

### General

Methanex is the world's largest producer and marketer of methanol. Methanol is produced primarily from natural gas and is a basic chemical building block used to manufacture formaldehyde, methyl tertiary butyl ether ("MTBE"), acetic acid and a variety of other chemical intermediates which form the foundation for a large number of secondary derivatives which, in turn, are used in the manufacture of a wide range of products. Due to the diversity of the end-products in which it is used, methanol demand is influenced by a broad range of economic, industrial and environmental factors.

Methanex operates strategically located methanol production facilities in North America, New Zealand and Chile and sources additional methanol produced by others in the United States, Europe and Trinidad. Methanol produced by Methanex and sourced from other producers is sold by Methanex through an extensive global marketing and distribution system which has enabled Methanex to become the largest supplier of methanol to each of the major international markets.

As a result of Methanex's worldwide production, marketing and distribution capabilities, Methanex is a preferred supplier of methanol to major chemical and petrochemical producers for whom quality and reliability of supply are important. Methanex believes it benefits from its preferred supplier status through greater stability and security of demand, and resulting marketing and transportation synergies.

Methanex is also a periodic producer of gasoline at its Motunui plant, where the production switching flexibility at its synfuel plant allows crude methanol to be either distilled to yield chemical-grade methanol or converted into synthetic gasoline through a unique conversion process.

The following table sets forth certain financial and operating data for Methanex's methanol and gasoline operations:

Year ended December 31

(revenue in millions of US\$/production  
and sales volume in thousands of tonnes)

	1996	1995	1994	1993
<b>Methanol</b>				
Revenue	\$ 911.5	\$ 1,179.1	\$ 1,402.9	\$ 408.9
Production	4,455.2	4,005.9	3,622.3	2,270.2
Sales volume				
Company-produced product	4,579.9	3,939.8	3,403.3	2,263.8
Purchased product	1,556.9	1,381.7	1,471.2	745.8
Total	\$ 6,136.8	\$ 5,321.5	\$ 4,874.5	\$ 3,009.6

### Gasoline

Revenue	\$ 34.2	\$ 54.2	\$ 72.2	\$ 111.6
Production	177.5	289.6	466.6	604.3
Sales volume	182.5	308.0	459.0	609.8

The methanol and gasoline produced and sold by Methanex are classified together as natural-gas-based petrochemical products. These operations are conducted from four geographic regions: North America, Asia Pacific, Latin America and Europe. See "Selected Consolidated Financial Information-Segmented Information."



### ***Corporate Strategy and Development of the Business***

Since 1991, following completion of a significant reorganization of its capital and assets, Methanex has expanded its global methanol production and marketing reach to enable it to become a low-cost producer and preferred supplier in the methanol industry. Methanex's strategy included the development of strategic alliances, initially with Metallgesellschaft Corp. (either alone or together with its affiliates, "Metallgesellschaft") and Fletcher Challenge Limited (either alone or together with its subsidiaries, "Fletcher Challenge") and more recently with NOVA Corporation (either alone or together with its subsidiaries, "NOVA"), through the acquisition and consolidation into Methanex of methanol production facilities and methanol marketing arrangements. Methanex's strategy has also included the addition of production capacity through capital expansion projects.

Methanex has also focused on reducing its delivered costs and increasing its operating flexibility.

As a result of this strategy, Methanex has developed a global presence in the methanol industry that enables it to provide reliable, efficient and cost-effective delivery of methanol from geographically diverse locations to customers in each of the world's major methanol markets.

Methanex has implemented this strategy through the following transactions and capital expansion projects:

#### **1991**

- In December 1991, in exchange for Common Shares, Methanex acquired Metallgesellschaft's North American methanol interests, consisting of the right to purchase a portion of the production from the Enron methanol plant operated by Enron Clean Fuels Company ("Enron Clean Fuels") in Texas and a one-third interest in Methanex Methanol Company (in which Methanex already held a one-third interest) which is a merchant marketer of methanol in the United States.

#### **1992**

- In April 1992, in exchange for Common Shares, Methanex acquired Metallgesellschaft's Caribbean methanol interests, consisting of a 10% equity interest in Caribbean Methanol Company Limited and exclusive marketing rights to a portion of the methanol produced from its subsequently completed plant in Trinidad.
- In September 1992, in exchange for cash, Methanex acquired Metallgesellschaft's European methanol marketing and trading operations and certain other interests.
- In November 1992, in exchange for Common Shares and a subsequently exercised option to purchase additional Common Shares, Methanex acquired Metallgesellschaft's 70% interest in Fortier Methanol Company ("Fortier Methanol") which was then in the early stages of converting an idle ammonia plant in Louisiana into the Fortier methanol facility.

#### **1993**

- In January 1993, in exchange for Common Shares, notes and cash (financed through the public offering of Common Shares), Methanex combined its business with Fletcher Challenge's methanol and synthetic fuel business, including the Waitara Valley and Motunui production facilities in New Zealand and the methanol facility in Chile.
- In December 1993, Methanex commenced construction of an additional distillation unit, Distillation III, for its New Zealand facilities.

#### **1994**

- In late 1993 and early 1994, Fletcher Challenge and Metallgesellschaft disposed of all of their shareholdings.
- In January 1994, in exchange for Common Shares and cash, Methanex acquired substantially all of NOVA's methanol business and operations, including the three adjoining Medicine Hat plants in Alberta. At the same time, the Company issued and sold additional Common Shares to NOVA for cash and NOVA became the company's largest single shareholder.
- In September 1994, Fortier Methanol completed the conversion for the Fortier methanol facility.
- In October 1994, Methanex announced a new capital expansion project for its New Zealand facilities, involving twinning Distillation III with construction of another distillation unit, Distillation IV.
- In October 1994, Methanex also announced a new capital expansion project for its Chilean facility, involving construction of Chile II (a new plant adjacent to the existing Chile I plant).
- In December 1994, Methanex completed construction of Distillation III.

**1995**

- In June 1995, Methanex acquired the remaining minority interest in Methanex Methanol Company.
- In June 1995, Methanex completed construction of Distillation IV.
- In August 1995, Methanex sold its interest in the ammonia facility at Kitimat.
- In December 1995, Methanex gave notice of termination of its methanol tolling arrangement with Enron Clean Fuels.

**1996**

- During the year, Methanex added three newly built time charter vessels of 30,000 DWT each to its expanding fleet of dedicated methanol ships.
- In September 1996, Methanex announced a new capital expansion project at its facilities in Chile, involving construction of Chile III (a new plant that will be adjacent to the existing plants) which is expected to be completed in the second half of 1999 with a capacity of 975,000 tonnes.
- In December 1996, Methanex took a one-time write-down of \$93.4 million (net of tax) for the planned idling of the small plants at Medicine Hat (the first unit in 1997 and the second in 1999) and for the planned idling of the Waitara Valley plant in early 1998 to accommodate the entry of new low-cost production from its Chilean plants.
- In December 1996, Chile II came onstream adding 925,000 tonnes to Methanex's production capacity.

The combined effect of the transactions and capital expansion projects described above has been to position Methanex as the global methanol industry leader operating through a transnational production, marketing and logistics network.

Quality and reliability of supply are key factors in the methanol industry in securing major chemical and petrochemical producers as customers. These transactions have permitted Methanex to better position itself within the methanol industry and to become a preferred supplier through the existence of geographically diverse, multiple production sites and marketing and distribution synergies. The ability to deliver methanol from alternative plants also enables Methanex to internally adjust its supply to various markets to meet changing demand and take advantage of favorable cost factors.

These transactions have also created potential synergies and efficiencies. Methanex has been concentrating its efforts on extracting value from its asset base by realizing operational savings through coordination of marketing and administration functions, improved logistics in transportation and inventory management and cost-effective feedstock and catalyst procurement programs. Methanex has also focused on reducing its cost position and increasing its operating flexibility through its capital expansion projects and intends to continue to seek to identify alternatives to fill supply gaps in the marketplace. The ongoing implementation of these strategies is expected to enhance Methanex's ability to maintain its position as a leading low-cost producer and preferred supplier in the methanol industry.

Methanex's determination in pursuing its strategy to reduce its average delivered cost per tonne is reflected in the coming onstream of Chile II in December 1996 and the construction and development of Chile III, which is planned for completion in the second half of 1999. Parallel to these expansions, and driven by the same cost-reducing strategy, Methanex has announced the mothballing of its high-cost small plant at Medicine Hat to coincide with the entry of new low-cost production from its Chile II plant.

Methanex's broader customer base and expanded shipping resources have enabled it to more fully realize the value of the unique swing capacity and production switching flexibility between methanol and gasoline at its plants in New Zealand. Successful execution of the product switch depends on logistics management of shipping and the ability to maintain supply to meet contract commitments.

The swing capacity provides operating flexibility to turn methanol production on or off, and the production switching permits Methanex to maximize margins by taking advantage of the relative pricing differentials between methanol and gasoline and to respond quickly to market opportunities.

The maximum swing capacity of gasoline production represents 1.8 million tonnes of methanol which equals approximately 30% of Methanex's aggregate methanol production capacity. The marginal impact of the swing volume on global methanol supply provides Methanex with the flexibility to strategically respond to changes in global methanol supply/demand balance.

Methanex's operating flexibility is further enhanced by its ability at those facilities with multiple plants to reduce production at one or more of the plants without having to shut down the whole facility. This allows Methanex to more precisely adjust output to changing customer requirements or market conditions and, during periods of rising natural gas feedstock costs, to respond by switching production to the lowest-cost plants to optimize the overall delivered cost of methanol.

Methanex's strategy in increasing its operating flexibility is designed to reduce the commodity influences on its business.

## **Methanol Industry Information**

### **General**

Methanol (also known as methyl alcohol  $\text{CH}_3\text{OH}$ ) is a liquid petrochemical manufactured from synthesis gas which is typically produced from natural gas through steam reforming. Methanol is synthesized under pressure in a catalytic process and the crude methanol is purified to chemical-grade by distillation.

The largest use of methanol is as a chemical feedstock employed in the production of formaldehyde, acetic acid and a variety of other chemical intermediates which form the foundation for a large number of secondary derivatives which, in turn, are used in the manufacture of a wide range of products including plywood, particleboard, foams, resins and plastics. The second largest and fastest growing use of methanol is in the energy segment, primarily as one of the main components in the production of MTBE which is blended with gasoline as an octane enhancer and as an oxygenate to reduce the amount of harmful exhaust emissions from motor vehicles. Methanol is also being used on a small scale as a direct fuel source.

The methanol industry has undergone significant changes over the last decade. Methanol has developed from being primarily a regional product to become an internationally traded commodity. At present, each of the world's major methanol markets depends on imported methanol to meet demand. By contrast, until the mid-1980s the methanol industry operated as a traditional petrochemical industry, with production and consumption largely integrated and regional trading based on long-term customer relationships.

Consequently, methanol has become a typical commodity chemical characterized by cycles of oversupply resulting in depressed prices and idled capacity, followed by periods of shortage and rapidly rising prices as demand catches up and exceeds supply until increased prices justify new plant investment. In addition, the expanding number of different uses for methanol and its derivatives over the last several years has resulted in the methanol industry becoming more complex and subject to increasingly diverse influences.

### **Demand Factors**

Reflecting the diversity of its uses, methanol demand is influenced by a wide range of economic, industrial and environmental factors. The demand for methanol has two primary components: for use in the production of formaldehyde, acetic acid and other chemical products ("chemical derivative demand") and for the production of MTBE and for use as a fuel ("MTBE and fuel demand"). Historically, chemical derivative demand has accounted for the bulk of methanol demand. Because of the importance and relative stability of chemical derivative demand, methanol traditionally had been considered to be a mature commodity. However, in recent years MTBE demand has become increasingly important.

**Chemical Derivative Demand.** Methanol comprises approximately 45% by weight of the feedstock conventionally used in the production of formaldehyde. The largest use for formaldehyde is as a component of urea formaldehyde and phenol-formaldehyde resins, which are used as wood adhesives for plywood, particleboard, oriented-strand board, medium-density fibreboard and other reconstituted wood products. In recent years, there has been significant growth in the demand for formaldehyde as a raw material for engineering plastics. Formaldehyde is also used in the manufacture of a variety of other products, including elastomers, paints, building products, foams, polyurethane and automotive products.

Methanol comprises approximately 55% by weight of the feedstock when used in the production of acetic acid. Acetic acid is a chemical intermediate employed principally in the production of vinyl acetate monomer ("VAM"), acetic anhydride, purified terephthalic acid and acetate solvents, which are used in a wide variety of products including adhesives, paper, paints, plastics, resins, solvents, pharmaceuticals and textiles. The acetic acid industry has been benefiting from increasing demand for water-based solvents produced with VAM for use in paints and adhesives due to environmental concerns associated with emissions of volatile organic compounds.

The use of formaldehyde, acetic acid and other products in the building industry means that building and construction cycles and the level of wood production, housing starts, refurbishments and consumer spending are important factors in determining the level of chemical derivative demand. Demand is also increasingly affected by automobile production, durable goods production, industrial investment and environmental and health trends, as well as new product development in the panelboard and plastic packaging industries. Historically, chemical derivative demand for methanol has been relatively unaffected by changes in methanol prices. This demand inelasticity is due to the fact that there are few cost-effective substitutes for methanol in the production of the chemical derivative products of methanol and because methanol costs typically account for only a small portion of the value of many of the end-products.



As a basic chemical building block, methanol is also used in the manufacture of methylamines, methyl methacrylate and a diverse range of other chemical products, which in turn are ultimately used to make such products as adhesives, coatings, plastics, film, textiles, paint, solvent, paint remover, polyester resins and fibres, explosives, herbicides, pesticides and poultry feed additives and are also used in silicone products and as a substitute for chlorofluorocarbons in aerosol products. Methanol is also used as a de-icer and windshield washer fluid for automobiles as well as an anti-freeze for pipeline dehydration.

*MTBE and Fuel Demand.* Methanol comprises approximately 36% by weight of the feedstock used in the production of MTBE. The other principal component of MTBE is isobutylene. The principal uses of MTBE are as an octane improver and as an oxygenate for gasoline. Its high octane value and clean-burning properties significantly reduce hydrocarbon and carbon monoxide emissions from motor vehicles. MTBE was initially used as an octane enhancer in connection with the introduction of unleaded gasolines. Recent environmental concerns and legislation have shifted demand towards the use of MTBE as an oxygenate in gasolines in order to reduce the level of carbon monoxide and ozone depleting emissions. In the United States, MTBE's oxygenate value has become the most significant factor in its use while elsewhere MTBE currently continues to be used primarily as an octane improver.

One of the most important determinants of the future level of demand for MTBE as an oxygenate arises from the implementation of the 1990 amendments to the Clean Air Act in the United States (as amended, the "Clean Air Act"). The Clean Air Act mandates the use of cleaner-burning oxygenated gasolines under two programs. The winter-time oxygenated fuel ("oxy-fuel") program was introduced in November 1992 and requires the use of gasoline containing 2.7% oxygen by weight to reduce carbon monoxide emissions. This program was complemented by the commencement at the beginning of 1995 of the year-round reformulated gasoline ("RFG") program which generally requires gasoline oxygen content of 2.0% by weight. The RFG program is designed to reduce ozone-forming compounds and toxic air emissions. Use of MTBE as an oxygenate requires approximately 11% and 15% MTBE volume in gasoline to meet the 2.0% and 2.7% weight standards, respectively.

The oxy-fuel program initially applied in 39 U.S. cities (accounting for approximately 33% of U.S. gasoline demand) which were classified as carbon monoxide non-attainment areas. Since the introduction of the RFG program, certain cities have been able to meet the oxy-fuel program's carbon monoxide attainment standards through compliance with the RFG program. The length of the winter oxy-fuel season ranges from four months in most areas to seven months in certain areas which voluntarily extend the season.

The year-round RFG program is mandated in ten U.S. cities which are classified as extreme or severe ozone non-attainment areas. Certain of these cities in carbon monoxide non-attainment areas are required to meet the higher oxy-fuel oxygen weight standards during the winter oxy-fuel season. The Clean Air Act provides that a state, through its governor, may voluntarily elect to opt-in to the RFG program in marginal non-attainment areas of the state. Several states have made this election. In addition, in response to joint petitions from several state governors, the U.S. Environmental Protection Agency (the "EPA") is currently considering whether to permit attainment areas to opt-in to the RFG program. The entire State of California has implemented a mandated RFG cleaner burning gasoline program which commenced in the March to June 1996 time period. Altogether, approximately 30% of the United States gasoline demand is now served by oxygenated and reformulated gasolines.

The initial impact of the Clean Air Act has been to increase demand for the oxygenates required for the production of reformulated gasoline. MTBE, ethanol (which is produced from corn) and other substantially similar blends of ethers and alcohols (except methanol) constitute the oxygenates approved for use under the Clean Air Act. Currently, MTBE is considered the oxygenate of choice by the refining industry, as evidenced by the industry's support of MTBE over other oxygenates due to its compatibility with the gasoline blending and distribution systems and by the large number of MTBE plants built in recent years. A rule adopted by the EPA in 1994 that would have required a pre-determined percentage of the oxygenates used in the RFG program during certain months to come from renewable sources, such as ethanol, was overturned by a United States federal appeals court in 1995 on grounds that the EPA did not have authority under the Clean Air Act to specify the mix of oxygenates required to be used under the program. Market forces should continue to determine which oxygenates will be used to meet the Clean Air Act objectives.

Generally, demand for MTBE is affected by the price of MTBE relative to prices of alternative sources of oxygenates and octane as well as gasoline prices. MTBE prices, in turn, may be affected by feedstock costs, including the price of methanol.

The future demand for MTBE in the United States will be affected by the degree to which the Clean Air Act amendments are enforced, the possible adoption of additional legislation, the willingness of the regulatory authorities to grant waivers for specific cities or regions, the difficulty in isolating non-attainment areas from attainment areas and the demand for oxygenated or reformulated gasoline in areas where its use is not mandated or required. Waivers have been requested for certain areas subject to the Clean Air Act and a number of other areas that had previously voluntarily opted-in to the RFG program have opted-out or reduced their oxygen content requirements.

Outside the United States, there is potential for future growth in demand for MTBE in other countries that have been following the trend towards cleaner-burning oxygenated gasolines.

Although Methanex believes that MTBE growth will account for a significant portion of new methanol demand through the next several years, both for its cleaner-burning gasoline value and for its traditional octane value, there can be no assurance as to future growth rates in demand for MTBE or methanol.

Methanol is also used in a developing market as a direct fuel source in direct blends with gasoline and other applications, though currently this remains a small market segment. There have been initiatives in the United States relating to mandated use of alternative fueled or flexible-fueled vehicles and several automobile manufacturers have developed vehicles able to operate using methanol for such purposes. Methanol is also believed to have good potential as a clean-burning peak-power generating fuel and fuel cell advancements using methanol are being developed as an alternative means of generating energy in an environmentally beneficial manner that does not use traditional combustion.

### ***Supply Factors***

Natural gas costs account for the major portion of the cash operating costs of most methanol producers and are typically followed in order of importance by distribution costs and operating costs. Newer plants have generally been constructed in locations with low-cost gas, offset in some instances by higher distribution costs due to their distance from major markets.

There is typically a two-and-one-half to four-year lead time to plan and construct a new methanol plant (commonly known as a greenfield plant) and, depending on design capacity and other factors, the capital cost for a world-scale plant can exceed \$300 million. Although from time to time there may be a number of proposals for new plants, particularly during periods of high methanol prices, there are currently only four new greenfield plants known to Methanex to be underway, excluding the Methanex Chile III plant announced in September 1996 and expected to be completed in the second half of 1999: Norway (830,000 tonnes per annum, scheduled to come onstream in 1997); Saudi Arabia (850,000 tonnes per annum, scheduled to come onstream in 1997); Indonesia (660,000 tonnes per annum, scheduled to come onstream in 1997); and Methanol IV in Trinidad (550,000 tonnes per annum, scheduled to come onstream in 1998).

Depending, in part, on methanol prices, additional capacity could potentially become available as a result of restarts of old methanol plants that have previously been shut down or through major expansions of existing plants.

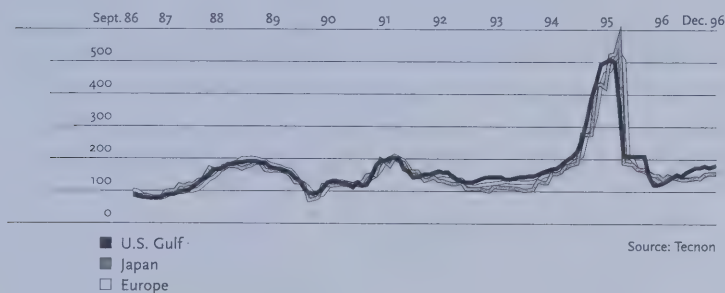
Increased capacity can also be generated on an incremental basis by "bottlenecking" existing plants to increase their ability to produce methanol.

As is typical of cyclical commodity chemicals, there is always a risk that a significantly long period of high methanol prices could encourage construction of new greenfield plants and major brownfield expansion projects which could lead to oversupply. On the other hand, the significant amounts of capital and long construction times required and the need for global marketing operations to successfully participate in the business unless fully contracted off-take agreements are secured, coupled with the historical volatility of methanol prices, may discourage investors and financial institutions and make it difficult to finance these types of projects.

### Methanol Prices

Methanol prices have historically been characterized by significant volatility and have been sensitive to overall production capacity relative to demand, the availability and price of natural gas feedstock and the level of general business activity. Since 1983, U.S. Gulf Coast posted contract barge prices have ranged from a low of \$85 per tonne to a high of \$517 per tonne. There have been three recent periods of high prices. The first period, from 1987 to 1989, was caused by a mismatch between supply and demand. The industry closed capacity in response to low prices, immediately prior to a period when demand increased because of growth in global construction and commodity markets. The second period, in 1990-91, was an inventory-inspired demand surge driven by uncertainty over the security of Middle East supply at the time of the Gulf War. The third period started in late 1993 as a result of a combination of unplanned capacity outages and routine shutdowns which coincided with a strong global economic recovery and the MTBE demand kick from the implementation of the RFG program under the Clean Air Act. Methanol prices increased in an unprecedented manner and, after reaching a peak in late 1994, began a year-long decline as a result of additional supply coming onstream, increased operating rates and the temporary shutdown of some MTBE facilities. After reaching a low of \$130 per tonne in November 1995, the average U.S. Gulf Coast posted contract barge price has increased steadily through 1996 to close the year at \$190 per tonne and has since increased to \$215 per tonne for January 1997.

The following chart sets forth methanol contract prices (in US dollars per tonne) in the world's major methanol markets:



Methanol prices in the United States are posted monthly by the major methanol producers, including Methanex. The majority of product is transferred on a contract price basis, although often a discount is applied to the contract price if the market is in surplus. Supply contracts generally specify a minimum and a maximum volume and generally include a "meet or release" clause that enables either party to walk away if agreement on price cannot be reached. Spot transactions also occur and are widely reported in weekly industry newsletters.

The Rotterdam contract price is the main indicator for Europe. This price is negotiated quarterly between the major customers and suppliers into the region, including Methanex. Minimum and maximum volumes are generally specified in supply contracts with European customers. As with the United States market, spot transactions also occur.

The third major market, Japan, has prices which are linked to the United States and European market prices.

As methanol is an internationally traded commodity, methanol prices in the United States, Europe and Japan have largely tracked each other, though often with leads and lags. In times when the markets diverge, product from off-shore suppliers moves into the higher priced market, eventually bringing the markets back into alignment.

### Production

#### Production Processes

Methanol is a liquid petrochemical made from fossil fuels containing carbon and hydrogen. The methanol manufacturing process employed by most of the industry, including Methanex, involves heating natural gas feedstock, mixing it with steam and passing it over a nickel-based catalyst, where the mixture is converted into carbon monoxide, carbon dioxide and hydrogen. This reformed gas is then cooled, compressed and passed over a copper-zinc catalyst to produce crude methanol. Crude methanol consists of approximately 80% methanol and 20% water. In order to convert it to chemical-grade methanol, crude methanol is distilled in a series of distillation towers which remove water, higher alcohols and other impurities.

The manufacturing process employed by Methanex for converting crude methanol into synthetic gasoline at its Motunui plant in New Zealand involves heating the crude methanol and passing it over an alumina catalyst which forms di-methyl-ether, methanol and water. This feedstock is then combined with recycled gas as it enters a gasoline-conversion reactor which uses a catalytic process and zeolite catalyst to produce gasoline. The gasoline then passes to a distillation section where it is separated into heavy gasoline, light gasoline and a high-vapor pressure-blending component. The zeolite catalyst was leased from a subsidiary of Mobil Oil Corporation. We are currently in the final stages of renewing this lease with an anticipated expiry of 2005. Methanex expects to either renew the lease or obtain its catalyst from other sources. In 1994, Methanex purchased two trial loads of catalyst from another source and this catalyst continues to be evaluated.

### Operating Data and Other Information

Methanex endeavors to operate its production facilities around the world in an optimal manner, by balancing its production with customer demand throughout Methanex's global supply chain and by taking advantage of its operating flexibility to switch production to the lowest-cost plants to optimize the overall delivered cost of methanol. Scheduled shutdowns of plants are necessary to change catalysts or perform maintenance activities which cannot otherwise be completed with the plant on-line (a process commonly known as a turn-around). Major turnarounds that include changing the catalyst typically take between three and four weeks. Catalysts generally need to be changed every three to four years, although there is flexibility to extend catalyst use if market conditions warrant, at the expense of some production efficiency. Careful planning and scheduling is required to ensure that maintenance and repairs can be carried out during turn-arounds. In some circumstances this is not possible, and both scheduled and unscheduled shutdowns may occur between turnarounds.

During 1996, the methanol industry changed from being in over-supply at the beginning of the year to being balanced at the end of the year.

The following table sets forth certain operating data and other information for Methanex's methanol and gasoline operations at each of its existing facilities:

	Nominal Rated Operating Capacity (tonnes/year)	1996 Production (tonnes)	Year Built
<b>Methanol</b>			
Kitimat, Canada	500,000	435,881	1982
Medicine Hat, Canada			
Plant 1	260,000	218,924	1975
Plant 2	270,000	244,222	1976
Plant 3	570,000	583,701	1981
Fortier, United States (a)	400,000(b)	247,940	1994
Enron, United States (c)	—	10,871	n.a.
Waitara Valley, New Zealand	530,000	548,887	1983
Motunui, New Zealand			
Distillation II	500,000(d)	371,201	1990
Distillation III	700,000(d)	529,709	1994
Distillation IV	700,000(d)	396,851	1995
Chile			
Chile I	800,000	853,340	1988
Chile II (e)	925,000	13,788	1996
<b>Total</b>	<b>6,155,000</b>	<b>4,455,315</b>	
<b>Gasoline</b>			
Motunui, New Zealand	720,000(f)	177,548	1985

(a) Fortier is operated by Methanex's joint venture partner in Fortier Methanol.

(b) Based on Methanex's 70% interest in Fortier Methanol. The actual nominal rated operating capacity is 570,000 tonnes per year.

(c) Methanex terminated its methanol tolling arrangement with Enron effective February 1996.

(d) Assumes crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV (as the case may be) for conversion into chemical-grade methanol.

(e) Chile II began production in December, 1996.

(f) Assumes no crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV for conversion into chemical-grade methanol.



Methanex also has one methanol project currently under development in Chile. The following table sets forth certain information with respect to this project:

Expected Nominal Rated Operating Capacity (tonnes/year)		Comments (a)
Chile III	975,000	Under development at the facility in Chile at a total estimated capital cost of approximately \$305 million. Start-up is expected in the second half of 1999.

(a) No assurance can be given that the facility will be completed on time or that the facility will operate at its expected nominal rated operating capacity.

#### **Existing Production Facilities**

*Kitimat, Canada.* The following table sets forth certain operating data and other information with respect to the Kitimat facility:

Year ended December 31 (tonnes)	1996	1995	1994
Annual nominal rated operating capacity	500,000	500,000	500,000
Annual production	435,881	409,419	497,944

The Kitimat facility is located in British Columbia on the Douglas Channel, a waterway navigable by the largest of ocean-going ships, which gives Methanex access to shipping lanes serving the Far East and the west and Gulf coasts of the United States. Proximity to the natural gas fields of northeastern British Columbia ensures ample feedstock supply. See "Natural Gas Supply."

After production, methanol is transported approximately four kilometres by pipeline to Methanex's private wharf for loading onto tankers. Methanol produced at Kitimat is sold primarily in the United States and Japan.

*Medicine Hat, Canada.* The following table sets forth certain operating data and other information with respect to the Medicine Hat facility:

Year ended December 31 (tonnes)	1996	1995	1994
<b>Plant 1 (a)</b>			
Annual nominal rated operating capacity	260,000	260,000	260,000
Annual production	218,924	230,020	240,469
<b>Plant 2 (a)</b>			
Annual nominal rated operating capacity	270,000	270,000	270,000
Annual production	244,222	215,349	246,714
<b>Plant 3</b>			
Annual nominal rated operating capacity	570,000	570,000	570,000
Annual production	583,701	527,668	552,165

(a) The Company has announced its intention to idle Plants 1 and 2. Refer to "Corporate Strategy and Development of the Business" on page 6.

The Medicine Hat facility consists of three adjoining methanol plants located on a single site in Medicine Hat, Alberta.

The combined production rate of Medicine Hat's three plants can be reduced to less than 50% of nominal rated operating capacity and production can continue from any one plant independent of the operating status of the other two. Ample natural gas feedstock supply is available to Medicine Hat from the gas fields of Alberta. See "Natural Gas Supply." Carbon dioxide for the plants is supplied by a liquefaction facility, which sources the raw gaseous carbon dioxide from another producer's adjacent ammonia facility under a long-term take-or-pay cost-of-service arrangement.

Methanol produced at Medicine Hat is shipped directly by rail to customers in the United States and Canada and to terminals in Vancouver where it is transported by ship to worldwide markets.

*Fortier, United States.* The following table sets forth certain operating data and other information with respect to the Fortier facility:

Year ended December 31 (tonnes)	1996	1995	1994
Annual nominal rated operating capacity	570,000(a)	570,000(a)	570,000(a)
Annual production	354,200(b)	448,175(c)	143,009(d)

(a) Methanex's share is 400,000 tonnes.

(b) Methanex's share was 247,940 tonnes.

(c) Methanex's share was 313,928 tonnes.

(d) Methanex's share was 100,107 tonnes. Fortier commenced commercial operation in September 1994.

Methanex owns a 70% interest in Fortier Methanol, a joint venture partnership with Cytec Methanol Inc. (a subsidiary of Cytec Industries Inc.) ("Cytec"). In September 1994, Fortier Methanol completed the conversion of Cytec's idle ammonia plant near New Orleans, Louisiana into a methanol production facility. Cytec operates the facility.

Fortier adds approximately 400,000 tonnes to Methanex's annual methanol production capacity. Methanex also markets approximately two-thirds of Cytec's 30% share of Fortier's annual methanol production, giving Methanex approximately 515,000 tonnes of product from Fortier.

Feedstock for Fortier is supplied under several medium-term natural gas supply contracts and a long-term oxygen supply contract. See "Natural Gas Supply."

Methanol produced at Fortier is sold to petrochemical producers in the area where the plant is located.

*Waitara Valley, New Zealand.* The following table sets forth certain operating data and other information with respect to the Waitara Valley facility (excluding Distillation II):

Year ended December 31 (tonnes)	1996	1995	1994
Annual nominal rated operating capacity	530,000	530,000	520,000
Annual production (a)	548,887	522,421	500,736

(a) The Company has announced its intention to idle the Waitara facility in 1998. Refer to "Corporate Strategy and Development of the Business" on page 6.

The Waitara Valley methanol facility, located on the North Island of New Zealand, is a stand-alone entity connected by a pipeline to the Motunui plant located four kilometres away, allowing methanol to flow between them.

A second methanol distillation unit, Distillation II, located at Waitara Valley allows this facility to receive and convert up to 25% of Motunui's crude methanol production into a maximum 500,000 tonnes per year of chemical-grade methanol. Alternatively, crude methanol can be transferred from Waitara Valley to Motunui for use in the production of additional gasoline.

The natural gas supply to Waitara Valley is a mixture of gas from the Maui and Kapuni gas fields. See "Natural Gas Supply." The plant has direct connections into the natural-gas distribution network of Natural Gas Corporation ("NGC"), which is a publicly traded utility.

Methanol is transported to Port Taranaki through a 35-kilometre pipeline. Methanol from Waitara Valley (including Distillation II, Distillation III and Distillation IV) is sold mainly into Korea, Taiwan, China, Malaysia and Japan.

*Motunui, New Zealand.* The following table sets forth certain operating data and other information with respect to the Motunui facility (including Distillation II at Waitara Valley and Distillation III and Distillation IV at Motunui):

Year ended December 31 (tonnes)	1996	1995	1994
<b>Crude Methanol</b>			
Annual nominal rated operating capacity	1,860,000	1,860,000	1,860,000
Annual production	1,780,814	1,630,415	1,683,438
<b>Methanol via Distillation II</b>			
Annual nominal rated operating capacity (a)	500,000	500,000	450,000
Annual production	371,201	371,277	455,873
<b>Methanol via Distillation III</b>			
Annual nominal rated operating capacity (a)	700,000	700,000	—
Annual production	529,709	429,924	19,022(b)

**Methanol via Distillation IV**

Annual nominal rated operating capacity (a)	700,000	—	—
Annual production	396,851	50,557(c)	—
<b>Gasoline</b>			
Annual nominal rated operating capacity (d)	720,000	720,000	720,000
Annual production	177,548	289,594	466,571

(a) Assumes crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV (as the case may be) for conversion into chemical grade methanol.

(b) Distillation III commenced commercial operation in December 1994.

(c) Distillation IV commenced commercial operation in June 1995.

(d) Assumes no crude methanol from Motunui is transferred to Distillation II, Distillation III or Distillation IV for conversion into chemical-grade methanol.

Motunui is the world's only natural-gas-to-gasoline plant and the world's largest methanol facility in terms of production capacity. It is located four kilometres from Waitara Valley. The plant is a stand-alone entity with its own infrastructure comprising twin methanol units that convert natural gas into crude methanol.

Crude methanol produced at Motunui is either converted into unleaded gasoline at Motunui or transported by pipeline to Distillation II at Waitara Valley or sent to Distillation III or Distillation IV on the Motunui site, where it is distilled into chemical-grade methanol. All crude methanol produced at Motunui can be distilled into chemical-grade methanol at Distillation II, Distillation III and Distillation IV (which can operate independently of one another) or, by reversing the flow in the pipeline to Waitara Valley, chemical-grade methanol produced at Waitara Valley can be converted into gasoline at Motunui.

Whether and to what extent Methanex uses this ability to swing production depends largely on the relative market prices for the two end-products. Methanex believes that this production switching flexibility enables it to take advantage of market opportunities and also provides a limited hedge against price drops for either gasoline or methanol. The production switching also provides Methanex with some downside protection against minimum-maximum volume provisions contained in some methanol supply contracts. During periods of reduced demand when customers shift to minimum volumes, Methanex is able to switch to gasoline production.

The natural gas supply to Motunui is primarily a mixture of gas from the Maui and Kapuni gas fields. See "Natural Gas Supply." The plant has direct connections into the natural-gas distribution network of NGC. Crude methanol diverted to Distillation II and chemical-grade methanol produced at Distillation III or Distillation IV is transported to Waitara Valley by pipeline for ultimate piping to Port Taranaki. Gasoline is transported to Port Taranaki through a 42-kilometre pipeline and is sold primarily in the domestic New Zealand wholesale market. See "Gasoline."

*Punta Arenas, Chile.* The following table sets forth certain operating data and other information with respect to the Chilean plants:

Year ended December 31 (tonnes)	1996	1995	1994
<b>Chile I</b>			
Annual nominal rated operating capacity	800,000	800,000	800,000
Annual production	853,340	841,344	873,730
<b>Chile II</b>			
Annual nominal rated operating capacity	925,000	—	—
Annual production	13,788(a)	—	—

(a) Chile II commenced commercial operation in late December 1996

The Chilean methanol facilities, located on the northwest bank of the Strait of Magellan near Punta Arenas, are two of the largest methanol plants in the world. Development of a third plant, Chile III, is currently underway. See "New Production Facilities."

Empresa Nacional del Petroleo de Chile ("ENAP"), a Chilean state-owned energy company, and producers from Argentina supply natural gas to the facilities. See "Natural Gas Supply." The gas is shipped through a network comprising a 183-kilometre pipeline that was specially built for the Chile I plant and a newly constructed 100-kilometre pipeline straddling the border of Argentina and Chile that was specially built for the Chile II plant. ENAP owns the pipeline and the port facilities through which Methanex's product is loaded onto ships. Methanex has the right to use the port facilities throughout the term of the ENAP gas supply contract.

Methanol produced at these facilities is sold primarily in South America, Europe and the United States.

### **New Production Facilities**

**Chile III, Chile.** In September 1996, Methanex announced the construction of a third plant, Chile III, adjacent to the existing plants. Chile III will be a stand-alone entity, although it will share infrastructure with the existing plants. The new plant is expected to have a nominal rated operating capacity of 975,000 tonnes of methanol per year.

Natural gas for the expanded facility will be supplied under a 20-year contract sourced from both Argentina and Chile through the existing infrastructure which is to be enhanced by approximately 15 kilometres of pipeline looping. The purchase price for natural gas under these supply contracts is based upon a fixed U.S. dollar price adjusted as determined to a set formula related to prevailing methanol prices.

The Chile III expansion project is currently expected to be completed during the second half of 1999 at an estimated capital cost of \$305 million.

### **Purchased Product**

Methanex engages in merchant methanol marketing through various marketing and supply arrangements entitling Methanex to purchase at a discount to market price, or to sell as a broker for a commission, methanol produced by others. Methanex sources additional methanol through its trading operations in the United States and European methanol spot markets.

The annual sales volume of methanol purchased by Methanex in 1996 was 1,556,924 tonnes compared to 1,381,690 tonnes in 1995.

The following table sets forth certain information with respect to Methanex's marketing and supply arrangements for third-party sourced methanol:

Source	Methanol (tonnes/year)		Nature of Arrangement
	1997 Expected(a)	1996 Actual	
Fortier, United States	140,000	67,469	Methanex may purchase methanol from its joint-venture partner's share of production from Fortier. Methanex has a 70% ownership interest in Fortier.
Leunawerke, Germany	210,000	322,792	Methanex has a firm commitment to purchase up to 200,000 tonnes. The actual quantity purchased depends on Leuna's internal requirements.
Caribbean Methanol, Trinidad	500,000	453,911	Methanex has a commitment to purchase up to 500,000 tonnes with an option on additional volume from the Caribbean Methanol plant. Methanex also has a 10% equity interest in the company which owns Caribbean Methanol.
Other	200,000	712,752	Product purchased from other sources including the spot markets.
<b>Total</b>	<b>1,050,000</b>	<b>1,556,924</b>	

(a) These volumes are estimates only, and no assurance can be given that such volumes will actually be purchased in 1997.

### **Methanol Marketing**

Methanex sells methanol on a worldwide basis to every major market through an extensive marketing and distribution system with marketing offices in the United States (Dallas), Europe (Brussels and Frankfurt), Canada (Vancouver), New Zealand (Auckland) and Chile (Santiago).

The methanol currently available to Methanex for marketing on an annual basis is approximately 7.205 million tonnes, of which 6.155 million tonnes represent the current maximum nominal rated operating capacity of existing plants and approximately 1.050 million tonnes represent methanol currently expected to be sourced from other producers (including spot market purchases).

Methanex's marketing strategy is to develop and maintain a strong customer base in the United States, Latin America, Europe and Asia, which are the world's major markets, as well as in other markets which are strategically located in relation to Methanex's production facilities, to form direct customer relationships rather than sell to methanol traders and to secure and maintain long-term sales contracts with major end-users.



Methanex's ability to sell methanol from its geographically diverse, multiple production sites enhances its ability to secure major chemical and petrochemical producers as customers, for whom quality and reliability of supply are important. The breadth of Methanex's network of marketing offices, together with its storage facilities and worldwide shipping arrangements, also allows Methanex to provide larger customers with multi national sourcing of product and other customized arrangements. As a result of its worldwide production, marketing and distribution capabilities, Methanex is a preferred supplier in the methanol industry and the largest supplier to each of the major international methanol markets.

Methanex augments its marketing operations by identifying surplus product from other producers and trading in the United States and European methanol spot markets. This enables Methanex to service a portion of the contract and spot requirements of its customers wherever the economics are favorable. Methanex continually evaluates its cost to serve markets and maintains internal flexibility so as to be able to respond and execute, purchase or produce decisions quickly. Product that is purchased outside of contracted offtake arrangements provides Methanex the opportunity to gain access to niche markets not otherwise accessible, as well as allowing the company to build its sales base prior to bringing on its own new capacity.

Approximately 90% of Methanex's current methanol production and third-party sourced methanol subject to supply commitments is covered by long-term or rolling one-year sales contracts. Pricing formulas under these contracts are generally determined on the basis of posted contract or other market prices at the time of shipment. None of Methanex's customers accounted for more than 10% of Methanex's total revenue in 1996.

Methanex does not currently pay any duties in any major market to which it exports its methanol, except for methanol sold into the European Community from Chile which, during 1997, will incur a duty of 7.6%. Methanol produced in Chile can be sold in the United States without duty. Accordingly, Methanex augments its supply to that market from Chile. Methanol produced by Methanex in New Zealand is sold in Japan, Korea, Taiwan, Australia and other Asian countries (excluding Indonesia) without the imposition of duties. Methanol from Canada is sold in the United States and Japan where it is exempt from duties. Methanol produced in the United States is sold domestically.

#### ***Methanol Distribution and Logistics***

Due to the locations of Methanex's plants in New Zealand and Chile, the cost of methanol distribution represents a significant portion of total costs and is important to Methanex's overall profitability. Kitimat, however, is well positioned on the great-circle routes for shipping methanol to the Asian markets and the United States, and is the lowest-cost methanol supply point for serving the California and Pacific Northwest markets. The Medicine Hat facility positions Methanex as a low-cost supplier to the Canadian and northern United States methanol markets. Methanol from Fortier is sold to local customers.

Methanol is pumped from Methanex's coastal plants by pipeline to adjacent deep-water ports for shipping. Methanex currently manages a fleet of time-chartered vessels to ship this methanol.

In North America, barge, rail and, to a lesser extent, truck transport are also utilized in Methanex's delivery system. Methanex also leases storage and terminal facilities in the United States, Canada and Europe.

#### ***Gasoline***

The Motunui plant in New Zealand is capable of processing approximately 65 petajoules of natural gas annually into approximately 720,000 tonnes of unleaded gasoline, a rate of 17,700 barrels per operating day, assuming all of Motunui's crude methanol is converted into gasoline instead of chemical-grade methanol. See "Production-Existing Production Facilities."

Most of the gasoline produced at Motunui's facilities has been sold in the domestic New Zealand wholesale market in the last several years. However, from time to time gasoline from Motunui has been exported to Australia, Japan, other Asian countries and the United States when the supply of unleaded gasoline produced at Motunui exceeds demand in the New Zealand domestic market. In New Zealand, Motunui's unleaded gasoline is sold either directly as a primary vehicle fuel or as a blending component for other higher grades of leaded or unleaded gasolines at the Marsden Point Refinery, the only domestic refinery in New Zealand.

With the completion of Distillation IV in June 1995, Methanex's gasoline supply obligations with Mobil were replaced by a new arrangement whereby Mobil, as Methanex's agent, markets gasoline produced at Motunui and in return Mobil is entitled to share in certain incremental profit from methanol production through Distillation IV.

Crude oil prices are the major determinant of the price received by Methanex for its gasoline. Another significant factor is the price of gasoline in Singapore (which is the reference price for the Asia Pacific market).

## **Natural Gas Supply**

### **General**

Natural gas is the principal feedstock for Methanex's products and accounts for a significant portion of its total production costs. Accordingly, the profitability of Methanex depends in large part on both the security of supply and the price of natural gas. Part of Methanex's long-term strategy has been to secure continuity of natural gas supply at favorable prices through a combination of long-term contracts and activity in the open market. Since Methanex is able to deliver methanol to its customers from a number of production facilities located throughout the world, its dependency on any one source of natural gas as well as the impact of the conditions of any regional market are diminished.

Natural gas for Methanex's facilities in Canada, which represents approximately 30% of Methanex's current total gas consumption, is purchased under a mix of contracts, with fixed and annually adjusted prices, and on the spot market. While wellhead natural gas prices in British Columbia and Alberta have been among the lowest in North America, these gas prices are set in an intensely competitive market, which generally follows the trend of natural gas prices in the United States, and can fluctuate widely. An increase in gas prices would adversely affect the operating margins for the Kitimat and Medicine Hat facilities if the increase could not be passed along to Methanex's customers.

Natural gas for Fortier (in which Methanex has a 70% interest) in the United States is sourced under several medium-term supply contracts with prices determined monthly. Louisiana gas prices are set in an intensely competitive market and can fluctuate widely.

Methanex's plants in New Zealand and Chile obtain substantially all of their natural gas through low-cost, long-term supply contracts with take-or-pay obligations which terminate in 2003 in the case of Motunui, 2005 in the case of Waitara Valley, 2008 in the case of Chile I and 2016 in the case of Chile II. There can be no assurance that natural gas will be able to be obtained on as favorable terms once these contracts expire or are terminated.

If for any reason Methanex is unable to obtain sufficient natural gas for any of its plants on commercially acceptable terms, it could be forced to curtail production or close such plants.

### **Canada**

The Kitimat facilities used 22.9 petajoules of natural gas in 1996 and an average of 22.7 petajoules per year over the three-year period ended December 31, 1996. Methanex sources its natural gas for Kitimat from the fields in northeastern British Columbia, and constitutes the largest industrial purchaser of natural gas in British Columbia. Substantial volumes of gas are available from British Columbia producers, a situation that is expected to continue for the foreseeable future.

Most of the natural gas feedstock for Kitimat is purchased directly from producers or other suppliers under indexed-price contracts entered into annually and the balance is acquired on the spot market. British Columbia gas prices are set in an intensely competitive market and can fluctuate widely. Wellhead prices from British Columbia producers historically have been among the lowest in North America due to surplus capacity, which could be eliminated, and the distance to export markets in the United States.

Natural gas purchased for Kitimat is transported through pipeline transmission systems operated by Westcoast Energy Inc. ("Westcoast") and its affiliate, Pacific Northern Gas Ltd. ("PNG"). During 1996, the majority of PNG's total volume in its pipeline system, which extends from Kitimat to Westcoast's main transmission line, represented natural gas delivered to Methanex's facilities. PNG and Westcoast are each regulated public utilities whose tolls, rates and tariffs for processing and transporting gas are approved and set by government agencies through a public hearing process. Methanex's transportation service agreements provide for delivery of most of its natural gas requirements on a firm basis with the remainder on an interruptible basis. The delivered cost of gas varies with quantities purchased and Methanex is obliged to pay for certain minimum annual pipeline charges.

The Medicine Hat facility used 43.7 petajoules of natural gas in 1996 and an average of 41.6 petajoules per year over the three-year period ended December 31, 1996. Methanex sources its natural gas for Medicine Hat from the nearby fields of Alberta which offer substantial volumes of available gas.

Natural gas for Medicine Hat is purchased from a number of suppliers under a mix of contracts, with fixed and annually adjusted prices, and on the spot market. Alberta gas prices are set in an intensely competitive market and can fluctuate widely.

The historic differential between natural gas prices in Alberta and the U.S. Gulf Coast, resulting from pipeline transportation cost differences and the relative supply/demand balance in Alberta, has been an important competitive factor for Medicine Hat. To take advantage of a widening of this differential, Methanex entered into arrangements to fix the price for a significant portion of Medicine Hat's gas requirements through October 1998.

#### ***United States***

The Fortier facility used 11.3 petajoules of natural gas in 1996. Natural gas for Fortier is sourced under a number of two- to seven-year term supply contracts with prices determined monthly. Louisiana gas prices are set in an intensely competitive market and can fluctuate widely.

#### ***New Zealand***

The Waitara Valley and Motunui plants used 21.7 and 67.2 petajoules of natural gas, respectively, in 1996 and averages of 21.1 and 62.5 petajoules per year, respectively, over the three-year period ended December 31, 1996. Natural gas for the Waitara Valley and Motunui plants is sourced from the Maui and Kapuni fields, which currently account for approximately 83% and 11%, respectively, of New Zealand's total annual production of natural gas. The Maui field is a relatively deep-water offshore field located approximately 35 kilometres off the coast of the North Island of New Zealand. On an annual basis, it provides approximately 80% of the natural gas used at Waitara Valley and Motunui. Kapuni is an on-shore field located on the North Island. The natural gas from the Kapuni field contains a higher carbon dioxide content than the gas from the Maui field. While this quality makes the Kapuni gas unsuitable for most other conventional uses without additional treatment, the addition of carbon-dioxide-rich Kapuni gas to the principal Maui gas feedstock improves the efficiency of methanol production at Waitara Valley and Motunui.

Methanex has the right to purchase natural gas from the Maui field under supply contracts with take-or-pay obligations which terminate in 2003 (in the case of Motunui) and 2005 (in the case of Waitara Valley). Any contract quantities of natural gas paid for but not taken by Methanex in any year generally may be taken in any subsequent year until 2006 without further payment once the contract quantity for that year has been taken. The purchase price for natural gas under these contracts is based upon a fixed New Zealand dollar price which was established in 1975, adjusted annually upward or downward by a factor which is based on, but in all cases is less than, a specified New Zealand inflation rate index for the previous year.

The contractual supplier to Methanex of natural gas from the Kapuni field purchases the gas from the owners of Kapuni. Methanex is obligated to purchase, and the supplier is obligated to supply, a specified annual quantity of natural gas through 2003. This gas must be sourced from the Maui field if gas from the Kapuni field is not available. Methanex also has a contract with this supplier for the purchase of additional Kapuni gas through to 1999, which may be renewed by Methanex for an additional five-year period in 1999 so long as there are sufficient supplies of Kapuni gas available. The purchase price for natural gas under these contracts is essentially equivalent to the purchase price under the Maui gas contracts, plus certain additional inflation adjusted fixed amounts.

Methanex is obligated to pay an energy resource levy at a fixed rate of NZ\$0.45 per gigajoule in respect of all natural gas delivered under the Maui and Kapuni gas contracts. See "Foreign Operations and Government Regulation-New Zealand."

Since Methanex endeavors to operate its production facilities around the world in an optimal manner, balancing its production with customer demand, natural gas consumption from the Maui field varies with the rate at which Methanex chooses to operate the New Zealand plants. In the absence of new Maui gas reserves being developed and added to the current production reservoirs, or access to gas from other fields, operating the plants continuously at capacity would result in Methanex's contractual Maui gas entitlements being consumed earlier than the expiry dates of the contracts. A reduction in the recovery of gas from the current production reservoirs potentially could reduce Methanex's Maui gas entitlements.

There can be no assurance as to the ultimate quantity of gas to which Methanex is entitled under its Maui and Kapuni contracts, and if those contracts were unable to provide sufficient natural gas to the New Zealand plants, Methanex would be forced to seek alternative sources of natural gas. The currently identified natural gas reserves in New Zealand (other than Maui) would be insufficient on their own to supply the needs of Methanex. The excess of gas supply relative to demand in New Zealand has given producers little incentive to invest the capital required for significant exploration activities even though geologically the area has proven to be gas prone. Methanex is exploring the potential acquisition of additional gas to supply its New Zealand plants. However, there can be no assurance as to whether Methanex will be able to secure additional gas on commercially acceptable terms.



### **Chile**

The Chilean facilities used 33.9 petajoules of natural gas in 1996 and an average of 34.0 petajoules per year over the three-year period ended December 31, 1996. Natural gas feedstock for the Chile I plant is supplied by ENAP under a long-term take-or-pay contract which runs through 2008. ENAP is a Chilean state-owned energy company which has monopoly rights over all oil and natural gas in Chile. Natural gas feedstock for the Chile II plant is supplied as to 80% by sellers in Argentina and as to 20% by ENAP under long-term take-or-pay contracts that run through 2016. Under the terms of the contracts, the sellers are obligated to supply, and Methanex is obligated to take or pay for, a specified annual quantity of natural gas. Methanex also has an option to purchase up to an additional specified amount each year. Any contract quantities of natural gas paid for but not taken by Methanex in any calendar quarter generally may be taken in any subsequent quarter without further payment once the contract quantity for that quarter has been taken.

The purchase price for natural gas under the ENAP supply contract for the Chile I plant is based upon a fixed US dollar price, with periodic price steps, adjusted monthly through to 1998 by reference to any increase in a specified US inflation rate index and further adjusted as determined according to a set formula related primarily to prevailing methanol prices. The purchase price under the supply contracts for the Chile II plant is based upon a fixed US dollar price adjusted as determined according to a set formula related to prevailing methanol prices.

The Chilean facilities are located close to other natural gas reserves in Chile and Argentina which Methanex believes it could access on commercially acceptable terms after the expiration or earlier termination of the ENAP and Argentine gas supply contracts.

### **Foreign Operations and Government Regulation**

#### **General**

Methanex is a Canadian company with subsidiaries that operate production facilities in New Zealand and Chile and which owns interests in production facilities in the United States and Trinidad. As a result, Methanex is subject to risks inherent in foreign operations, including loss of revenue, property and equipment as a result of hazards such as expropriation, nationalization, war, insurrection and other political risks, risks of increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities, as well as changes in laws and policies governing operations of foreign-based companies.

In addition, because Methanex derives a substantial portion of its revenues from production and sales by subsidiaries outside of Canada, the payment of dividends or the making of other cash payments or advances by its subsidiaries to Methanex may be subject to restrictions or exchange controls on the transfer of funds in or out of the respective countries or result in the imposition of taxes on such payments or advances. Methanex has organized its foreign operations in part based on certain assumptions about various tax laws (including capital gains and withholding tax), foreign currency exchange and capital repatriation laws and other relevant laws of a variety of foreign jurisdictions. While Methanex believes that such assumptions are correct, there can be no assurance that foreign taxing or other authorities will reach the same conclusion. Further, if such foreign jurisdictions were to change or modify such laws, Methanex may suffer adverse tax and financial consequences.

Methanol sold by Methanex into the European Community from Chile currently incurs a duty of 7.6%. Although Methanex does not currently pay any duties in any other major market to which it exports its products, there can be no assurance that such duties will not be levied in the future or, in such event, that Methanex would be able to mitigate the impact on its business of such duties through techniques such as physical swaps of methanol which it has used to minimize the impact of duties in the past.

For discussion of Methanex's currency and feedstock hedging activities refer to page 32 of the Management's Discussion and Analysis.

#### **New Zealand**

The New Zealand Government imposes a levy on the producers of natural gas in New Zealand. This levy applies to natural gas from the Maui and Kapuni fields at the fixed rate of NZ\$ 0.45 per gigajoule. In line with natural gas industry practice, Methanex's New Zealand natural-gas supply contracts specify that an amount equal to the levy is to be paid by Methanex in addition to the base contract purchase price of natural gas. Accordingly, if the government were to change the amount of the levy, this would have a direct effect on the natural gas costs incurred by Methanex.



The New Zealand Government also has the power to impose constraints on demand, manufacturing, export and distribution of petroleum products (including gasoline and methanol produced by Methanex). This law gives the government powers to deal with a petroleum supply shortage or strategic need upon a basis similar to laws enacted in a number of countries during the oil shortages of the 1970s and early 1980s. Accordingly, the government's powers to intervene in the oil and gas industry are broad and override contractual and other private sector arrangements.

New Zealand enacted legislation in 1986 to safeguard claims by Maori tribes (the indigenous people of New Zealand) against lands previously owned by state-owned enterprises and subsequently privatized. The land on which certain parts of the infrastructure for the Waitara Valley and Motunui plants are located (for example, a tank farm for storing gasoline and various pipelines and pipeline valve and mixing stations) are subject to this legislation. There is a possibility that the tribunal which deals with Maori land claims could recommend the return of such land to Maori ownership. The New Zealand Government would be required to comply with such a recommendation, subject to payment of compensation to the affected owner. Methanex believes that, subject to receiving adequate compensation, such a forced divestment would not be likely to have a material adverse effect on its operations or financial condition. The land upon which the Waitara Valley and Motunui plants are located and the surrounding buffer zones of farmland owned by Methanex are not subject to such forced divestment procedures.

Methanex is not subject to any exchange control or other governmental restrictions relating to the movement of money into or out of New Zealand.

### *Chile*

Methanex Chile Limited ("Methanex Chile"), a wholly owned subsidiary of the Company which owns the existing Chile I plant, is a party to a foreign investment contract (the "DL600 Contract") with the Government of Chile which was entered into in order to obtain government authorization to initially invest in the Chile I plant. The DL600 Contract, which remains in effect during the term of the ENAP gas contract, contains specific authorizations and limitations with respect to the existing Chile operations. Under the DL600 Contract, Methanex Chile is authorized to remit from Chile in US dollars or any other freely convertible currency all or any part of its profits and its equity subject to certain conditions. Methanex Chile also has the right under the DL600 Contract to pay income taxes under the general tax regime at a fixed rate of 42% for twenty years. Alternatively, Methanex Chile can elect to pay income tax at the general applicable rates (currently 35%) for domestic Chilean companies. Once this election is made it is irrevocable. Methanex Chile has not yet made such election.

Under the DL600 Contract, provided that a minimum investment of \$50 million remains in Chile, Methanex Chile does not have to remit to Chile the proceeds of applicable export sales. However, any "surplus funds" from such proceeds can be held in a foreign account monitored by the Chilean Central Bank, but cannot be accessed unless they are remitted to Chile and converted into Chilean pesos. "Surplus funds" do not include the following amounts which may be accessed by Methanex Chile: (i) amounts required to pay for goods and services supplied or contracted outside Chile; (ii) dividends payable to Methanex Chile's shareholders upon payment of Tier 2 tax at the rate of 20%; (iii) repayments of principal and interest on approved loan facilities; and (iv) repayment of equity.

The DL600 Contract provides that it cannot be amended or terminated except by written agreement signed by both Methanex Chile and the Chilean state.

Methanex Cabo Negro Limited, a wholly owned subsidiary of the Company which owns the Chile II plant, has obtained government authorization to invest in the Chile II expansion project and has entered into a foreign investment contract with the Government of Chile on substantially the same terms as the DL600 Contract.

### *Other*

Methanex's operations in Canada, the United States, Europe and elsewhere are, to a certain extent, affected by political developments and by federal, provincial, state and other local laws and regulations. However, to date, Methanex has been able to substantially comply in all material respects with governmental requirements without incurring significant costs.

**Environmental Matters**

Canada, the United States, New Zealand and Chile all have laws governing the environment and sustainable management of natural and physical resources and the handling, storage, transportation and disposal of hazardous or waste materials. Methanex is also subject to laws governing the import, export, use, discharge, storage, disposal and transportation of toxic substances. The substances used and produced by Methanex are subject to regulation under various health, safety and environmental laws. Non-compliance with, or violation of, these laws and regulations may give rise to work orders, fines, injunctions, civil liability and criminal sanctions.

Methanex believes that it is currently in substantial compliance in all material respects with all existing environmental, health and safety laws and regulations to which its operations are subject. Laws and regulations protecting the environment have become more stringent in recent years and may, in certain circumstances, impose strict liability rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Such laws and regulations may expose Methanex to liability for the conduct of or conditions caused by others, or for acts of Methanex that were contractually required of it and were in compliance with all applicable laws at the time such acts were performed. To date, such environmental laws and regulations have not had a material adverse effect on Methanex. However, the ongoing operations of petrochemical manufacturing plants entail risks in this area and there can be no assurance that material costs or liabilities will not be incurred.

**Insurance**

A substantial portion of Methanex's revenues are derived from the operation of its plants. Under certain conditions, prolonged shut-downs of plants due to unforeseen equipment breakdowns, interruptions in the supply of natural gas, power failures or any other reason, including any event of force majeure, could materially adversely affect Methanex's revenues and earnings from operations. Methanex's business is subject to the normal hazards of methanol and gasoline operations that could result in damage to its plants. Methanex maintains insurance, including business interruption insurance, that it considers to be adequate under the circumstances. However, there can be no assurance that Methanex will not incur losses beyond the limits of, or outside the coverage of, such insurance. From time to time various types of insurance for companies in the chemical and petrochemical industries have been very expensive or, in some cases, unavailable. There can be no assurance that in the future Methanex will be able to maintain existing coverage or that premiums therefor will not increase substantially.

**Employees**

As of December 31, 1996, Methanex had a total of approximately 881 employees worldwide, with 361 located in Canada (of which 132 were at the Kitimat plant and 142 were at the Medicine Hat plant), 275 located in New Zealand (of which 50 were at the Waitara Valley plant and 223 were at the Motunui plant) and 200 located in Chile (of which 186 were at the plant).

Approximately 30 contractors regularly work on-site in Chile and approximately 15 contractors are used on each of the New Zealand and Medicine Hat sites.

Methanex operates all of its global facilities union-free with the exception of 40 employees at its New Zealand facilities who are union members and are covered by site-specific collective contracts negotiated by trade unions.

## Selected Consolidated Financial Information

### Five-Year Summary (a)

Years ended December 31 (millions of US dollars except per share amounts)	1996(b)	1995	1994	1993	1992
<b>Statement of Earnings Data</b>					
Revenue	946	1,249	1,488	533	438
Net earnings	(8)	192	435	10	25
Per share net earnings	(0.04)	1.01	2.20	0.06	0.15
<b>Balance Sheet Data</b>					
Total assets	1771	1,749	1,688	970	913
Long-term debt	398	421	408	441	288
Preferred shares of subsidiary company	—	—	—	—	100

### Quarterly Summary (unaudited) (a)

(millions of US dollars except per share amounts)	1996				1995			
	Three Months Ended				Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31 (b)	Mar. 31	June 30	Sept. 30	Dec. 31
Revenue	218	227	237	264	542	259	233	215
Net earnings	14	11	24	(57)	152	30	5	5
Per share net earnings	0.08	0.06	0.13	(0.30)	0.79	0.16	0.03	0.03

### Segmented Information (a)

(millions of US dollars)	North America	Latin America	Asia Pacific	Europe	Eliminations	Total
<b>Revenue</b>						
1996	444	150	310	195	(153)	946
1995	628	201	369	217	(166)	1,249
<b>Earnings from operations</b>						
1996	16	47	35	—	—	98
1995	114	60	130	—	(1)	303
<b>Total assets</b>						
1996	587	730	395	59	—	1,771
1995	849	399	461	40	—	1,749

(a) Amounts have been restated to reflect the settlement reached with Revenue Canada regarding the Company's 1988 income tax return.

(b) 1996 earnings were affected by a \$93.4 million write-down of property, plant and equipment. Excluding the write-down, earnings per share were \$0.45 for 1996 and \$0.20 for the fourth quarter of 1996.

### Dividends

The indenture governing Methanex's U.S. debt securities imposes certain limitations on the declaration or payment of cash dividends on the Common Shares of the Company or other shareholders' distributions to an amount which, after giving effect to such payment or distribution, would cause the Company's consolidated shareholders' equity to be less than \$850 million.

### Management's Discussion and Analysis

Management's Discussion and Analysis which appears on pages 25 to 32 of the Company's 1996 Annual Report is incorporated herein by reference.

### Market for Securities

The Common Shares of the Company are listed on The Toronto Stock Exchange and the Montreal Exchange in Canada and are quoted through the Nasdaq National Market in the United States.

### Directors and Officers

The following sets forth the names and municipalities of residence of the directors and officers of the Company, the offices held by them in the Company, their current principal occupations, any other principal occupations during the last five years and, in the case of the directors, the years in which they became directors:

Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years	Director Since
<b>Choquette, Pierre</b> West Vancouver, British Columbia	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Company since October 1994. Prior thereto held various senior executive positions with NOVA	October 1994
<b>Findlay, Robert B.</b> (2) (3) West Vancouver, British Columbia	Director	President and Chief Executive Officer of MacMillan Bloedel Limited	July 1994
<b>Gregson, Brian D.</b> (1) (3) Vancouver, British Columbia	Director	Corporate Director. Prior to July 1995 was Chairman of Barbican Properties Inc. and prior to that Senior Executive Vice President of the Royal Bank of Canada.	July 1994
<b>Lawrence, R.J. (Jack)</b> (1) (2) Toronto, Ontario	Director	Chairman of Lawrence & Company Inc. since November 1995. Prior thereto held various offices with Nesbitt Burns Inc. and its predecessors, most recently as Vice-Chairman of Nesbitt Burns Inc.	January 1995
<b>Lipton, Jeffrey M.</b> (2) (3) Calgary, Alberta	Director	President of NOVA since September 1994. Prior thereto Senior Vice President and Chief Financial Officer of NOVA; prior to February 1994, Senior Vice President of Novacor Chemicals Inc.; prior to December 1993, held various positions with E.I. duPont de Nemours & Co.	February 1994
<b>Morton, David</b> (2) (3) Montreal, Quebec	Director	Corporate Director. Formerly Chairman and Chief Executive Officer of Alcan Aluminium Limited from 1989 to 1993 and Chairman until May 1995.	January 1995
<b>Newall, J.E. (Ted), O.C.</b> (2). Calgary, Alberta	Chairman of the Board and Director	Chief Executive Officer and Vice Chairman of NOVA	February 1994
<b>Poole, A. Terence</b> (1) Calgary, Alberta	Director	Senior Vice President and Chief Financial Officer of NOVA since 1994. Prior thereto Senior Vice President and Corporate Controller of NOVA since September 1993; prior thereto Vice President and Controller of NOVA	February 1994
<b>Sweeney, Graham D.</b> (1) (2) (3) Sarnia, Ontario	Director	Corporate Director. Formerly President and Chief Executive Officer of Dow Chemical Canada Inc. from April 1993 to October 1995. Prior thereto held various senior executive positions with The Dow Chemical Company until July 1995.	July 1994



Name and Municipality of Residence	Office	Principal Occupations and Positions During Last Five Years	Director Since
<b>Britton, Ronald W.</b> North Vancouver, British Columbia	Vice President, North America	Vice President, North America of the Company since June 1995 and prior thereto held various positions with Bayer A.G.	n.a.
<b>Duncan, Terence W.</b> West Vancouver, British Columbia	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of the Company since April 1993 and prior thereto held various positions with Fletcher Challenge	n.a.
<b>Gordon, John K.</b> Vancouver, British Columbia	Vice President, Human Resources and Corporate Affairs	Vice President, Human Resources of the Company since August 1995. Prior thereto held similar positions with Bramalea Inc., Lac Minerals Ltd., Kmart Canada Ltd. and Suncor Inc.	n.a.
<b>Krause, Rodolfo L.</b> Santiago, Chile	Vice President, Latin America	Vice President, Latin America of the Company and General Manager, Methanex Chile Limited since April 1993 and prior thereto held various positions with Cape Horn Methanol Company	n.a.
<b>Linton, L.A. John</b> Auckland, New Zealand	Vice President, Asia Pacific	Vice President, Asia Pacific of the Company and Managing Director, Methanex New Zealand Limited. From 1992 to April 1993 was General Manager, New Zealand of Fletcher Challenge Methanol Limited and prior thereto held various positions with BP Chemicals Limited	n.a.
<b>Maqsood, Sajid M.</b> North Vancouver, British Columbia	Vice President, Corporate Development	Vice President, Corporate Development of the Company since November 1995 and prior thereto held various positions with NOVA	n.a.
<b>Russell, Ronald J.</b> Calgary, Alberta	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel and Corporate Secretary of the Company	n.a.
<b>Wilson, Michael M.</b> Bragg Creek, Alberta	Executive Vice President, Global Marketing and Logistics	Executive Vice President, Global Marketing and Logistics of the Company since June 1994 and prior thereto held various positions with Dow Chemical Company Inc.	n.a.

(1) Member of the Audit, Finance and Risk Committee.

(2) Member of the Human Resources and Corporate Governance Committee.

(3) Member of the Responsible Care® and Public Policy Committee.

### Additional Information

The Company will provide to any person, upon request to the Corporate Secretary of the Company:

(a) when the securities of the Company are in the course of a distribution pursuant to a short-form prospectus or a preliminary short-form prospectus has been filed in respect of a distribution of its securities,

(i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;

(ii) one copy of the comparative financial statements of the Company for the year ended December 31, 1996 together with the accompanying report of the auditors and one copy of any interim financial statements of the Company subsequent to the financial statements for the year ended December 31, 1996;

(iii) one copy of the Management Proxy Circular of the Company dated March 6, 1997 for the Annual General Meeting of the Company to be held on May 8, 1997; and

(iv) one copy of any other documents that are incorporated by reference into the preliminary short-form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a) (i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information, including directors and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular dated March 6, 1997 for the Annual General Meeting of the Company to be held on May 8, 1997. Additional financial information is provided in the consolidated financial statements of the Company for the year ended December 31, 1996. Copies of these documents, as indicated above, may be obtained upon request from:

**Ronald J. Russell**

Vice President, General Counsel and Corporate Secretary

Methanex Corporation

1800 Waterfront Centre

200 Burrard Street

Vancouver, British Columbia V6C 3M1

# Methanex Investor Information Services:

## Shareholder Direct:

**1-800-64-MEOHF**  
(1-800-646-3643)

1. **Corporate Info** – company profile, latest earnings, earnings release date & conference call info, CEO remarks, and stock quote
2. **Questions/Answers** – commonly asked questions (incl. methanol price)
3. **Latest News Releases**
4. **Fax & Printed materials** – news releases, annual report and quarterly releases
5. **Shareholder Services**

## Website:

**<http://www.methanex.com>**

- 1996 Annual Report
- Frequently Asked Questions
- New Releases/Quarterly Reports
- What is Methanol?
- Shareholder Information
- Manufacturing Facilities

**Investor Relations  
& Corporate Communications**



*A Responsible Care® Company*

**Methanex Corporation**  
1800 Waterfront Centre  
200 Burrard Street  
Vancouver, B.C.  
Canada V6C 3M1

Shareholder Direct: 1.800.646.3643  
Website: [www.methanex.com](http://www.methanex.com)  
E-mail: [invest@methanex.com](mailto:invest@methanex.com)

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**[invest@methanex.com](mailto:invest@methanex.com)**



**Investor Relations  
& Corporate Communications**  
Methanex Corporation  
1800 Waterfront Centre  
200 Burrard Street  
Vancouver, B.C.  
Canada V6C 3M1

**24 hours a day  
7 days a week**

*A Responsible Care® Company*

Shareholder Direct:

1-800-64-MEOHF

Website:

<http://www.methanex.com>

**Shareholder Direct 1-800-64-MEOHF**

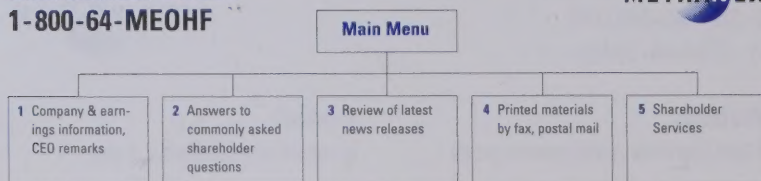
**Main Menu:**

- 1 Company information, earnings information, CEO remarks
- 2 Answers to commonly asked questions
- 3 Review of latest news releases
- 4 Printed materials, faxed materials
- 5 Shareholder Services

- \* Repeat Current Menu
- # Return to the Main Menu
- 9 Terminate call (hang-up)



**Shareholder Direct  
1-800-64-MEOHF**



**At Anytime**

- \* Press to repeat the Current Menu
- # Press to return to Main Menu
- 9 To terminate call (hang-up)



## Dear Investors,

Last year's annual report theme entitled "What is Methanol" provided an overview of the diverse range of products that require methanol in their manufacture. This year's report builds on this theme to outline "Why Methanex" can create superior shareholder returns through the world-class operation of a global methanol pipeline.

The focus of our investor relations and corporate communications team is the continual improvement of our communication links with the investment community. Three of these tools include our shareholder toll free line at **1-800-64-MEOHF**, our website at <http://www.methanex.com>, and our quarterly CEO conference calls.

Beginning in 1997, we are adding a management discussion and analysis to accompany our quarterly releases thereby eliminating the need for a printed quarterly report. The release can be listened to, or received via fax, through our shareholder direct line or viewed on our website. Registered shareholders will continue to receive a copy of the earnings release via mail unless they request otherwise.

To improve access, we have arranged for a consistent phone number to call into management's quarterly conference calls. Please dial **416-626-MEOH** (416-626-6364) to gain **listen only** access to our conference calls during 1997. The tentative schedule is as follows:

Q1	Wednesday, April 16, 1997	1pm EST
Q2	Thursday, July 24, 1997	1pm EST
Q3	Thursday, October 23, 1997	1pm EST
Q4	Thursday, January 29, 1998	1pm EST

The 1997 **Annual General Meeting** will be held at 10:30 am PST on May 8, 1997 in the Pan Pacific Hotel, Vancouver, British Columbia, Canada.

Our Transfer Agent and Registrar, R-M Trust Company can be reached toll free at 1-800-387-0825.

***For more information or to provide feedback please,  
write to:***

Director, Investor Relations and Corporate Communications  
Methanex Corporation  
1800 Waterfront Centre  
200 Burrard Street  
Vancouver, British Columbia, Canada, V6C 3M1

*or email:*

[invest@methanex.com](mailto:invest@methanex.com)

**Kevin D.B. Budd**

Director, Investor Relations and Corporate Communications

Methanex Corporation  
1800 Waterfront Centre  
200 Burrard Street  
Vancouver, British Columbia  
Canada V6C 3M1



Responsible Care:  
A Total Commitment®

#### Responsible Care: A Total Commitment®

As a proud member of the chemical industry, Methanex Corporation subscribes to the Responsible Care® initiative which brings with it specific moral obligations regarding the responsible management of chemicals and chemical products.

All Methanex Corporation operations encourage the responsible development, introduction, manufacture, transportation, storage, handling, distribution, use and ultimate disposal of chemicals and chemical products so as to minimize adverse effects on human health and well-being and on the environment.

Responsible Care® at Methanex means:

- that its operations do not present an unacceptable level of risk to its employees, its customers, the public or the environment;
- providing relevant information on the hazards of chemicals to its customers, urging them to use and dispose of products in a safe manner, and making such information available to the public on request;
- Responsible Care® is an early and integral part of the planning process leading to new products, processes and plants;
- increasing the emphasis on understanding existing products and their uses and ensuring that a high level of understanding of new products and their potential hazards is achieved prior to and throughout commercial development;
- complying with all legal requirements which affect its operations and products;
- responsiveness and sensitivity to legitimate community concerns;
- working actively with and assisting governments and selected organizations to foster and encourage equitable and attainable standards.